

WE SPELL  
RESILIENCE  
DIFFERENTLY



Annual Report 2009

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## Sri Lanka Tea Exports 2009



<i>As at end December</i>	2009 million kg
CIS	60.2
UAE	31.1
Syria	29.5
Iran	28.6
Turkey	15.9
Jordan	13.4
Kuwait	10.2
Iraq	9.8
Japan	9.6
Libya	8.1
Chile	6.1
Saudi Arabia	5.1

IN A YEAR OF GREAT CHALLENGE,  
TALAWAKELLE TEA ESTATES PLC DUG  
DEEP TO TAP INTO A RESERVOIR OF  
RESILIENCE THAT STOOD THE COMPANY  
IN GOOD STEAD.

WE SPELL **RESILIENCE** BY FIVE CORE  
QUALITIES THAT UNDERPIN OUR BUSINESS -  
**STRATEGY... FOCUS... TEAMWORK...  
QUALITY... INVESTMENT FOR THE FUTURE.**

THE OPTIMAL APPLICATION OF THESE  
FIVE CORE QUALITIES HAVE YIELDED THE  
RESILIENCE WE NEEDED TO FACE  
A DIFFICULT YEAR.

# CHAIRMAN'S STATEMENT

We take pleasure in presenting the Company's Annual Report and Accounts for the year ended 31st December 2009.

## **Directorate**

Mr. N G Wickremeratne retired from the Board on 30th June 2009 and the undersigned was appointed a Director and Chairman with effect from 1st July 2009.

On behalf of the Board, I wish to place on record our appreciation and thanks to Mr. Wickremeratne for his able guidance and contribution during his tenure as Chairman. We wish him good health and contentment in his retirement.

## **Corporate Results**

Turnover for the year under review increased by 11.6% to Rs. 2,501.2 million when compared to the previous year. The Company recorded a loss after tax, for the year, of Rs. 13.9 million, compared to a net profit after tax of Rs. 110.6 million in 2008. The consolidated turnover was Rs. 2,587.8 million, an increase of 14.3% over the previous year.

The Group net loss for the year was Rs. 30.4 million compared to a net profit after tax of Rs. 108.0 million in the previous year.

The year under review was a very difficult one, possibly the worst since our privatisation in 1998. The loss for the year, the first reported, can be attributed to drought conditions that significantly affected tea production, and the increase in wage cost, arising from an upward revision of the daily wage rate of a worker by 42.5%, consequent to the Collective Agreement signed in September '09 which became effective from 1st April 2009. The impact on the year's results, due to the increase in wage cost and related gratuity liability, was Rs. 303.8 million. An additional Rs. 73.1 million was also charged in the year consequent to a change in the actuarial valuation policy of the Company, more fully explained in Note 2.3.14 to the Financial Statements.

The Company's tea production at 6.312 million kg was the lowest recorded since 1993 and was 589,471 kgs below that of the previous year.

Estate profitability declined by 41% to Rs. 163.6 million from the previous year. The performance in the first quarter was very much lower to the previous year's first quarter, due to lower prices and a sharp decline in tea production. The second and third quarters recorded an improved performance with favourable weather contributing to higher tea production and tea prices improving from their first quarter level. However, with the wage increase granted, the quarter recorded the largest loss for the year. The decline was mainly noted in the high grown category. The referred to wage increase and resultant gratuity charge implications were felt more acutely in the high grown sector, due to its relatively large workforce. The fourth quarter performed excellently, with a buoyant tea market and favourable weather for tea production.

A consistent focus on product quality throughout the year and a strong fourth quarter performance, made a significant contribution to reduce the net loss after tax of Rs. 135.9 million as at end September 2009. A substantial contribution from other operating income and containment of finance cost also mitigated the overall negative impact.

### **Quality**

Tea prices during the year were above of last year, mainly due to supply constraints in the international market. A product differentiation strategy was implemented and the Company obtained top prices for its marks.

The Company was ranked Number One (1) in terms of the price factor in the Western High Grown and low-grown elevations at the Colombo Tea Auctions amongst other Regional Plantation Companies. Mattakelle Estate was ranked Number One (1) amongst all estates in the Western High Grown region, and seven of our high grown marks were in the top ten rankings in the Western High Grown catalogue. Also, ten out of eleven high grown estate marks and three out of four low grown estate marks recorded prices above the national elevation averages during the year.

This consistent track record of achievement of the Company, as a producer of quality teas, is based on a process management system built on a strategy, to add value across the whole value chain.

### **Development and Investments**

The Company continued to invest in its core business and social infrastructure, despite a difficult year. However, investment levels were less than those of the previous year. Investments were made to improve land and factory productivity and to develop our human resource potential to ensure sustainability of operations. The total capital expenditure on field and non-field activities was Rs. 242.1 million. The investment in field and factory development was part financed through ADB concessionary funding. The cumulative investment since privatisation now stands at Rs. 2,833.1 million.

Social infrastructure investment to improve housing, water and sanitation and related social welfare programmes was Rs. 42.4 million during the year, and the cumulative investment to date in this field stands at Rs. 205.2 million. We wish to place on record our appreciation to the Plantation Trust Fund and JBIC for their assistance.

The two Hydro Power Plants namely Somerset and Palmerston commissioned last year, together with the Radella Plant did not produce to capacity mainly due to prevailing drought conditions. The combined capacity of these plants make the Talawakelle region near self-sufficient in terms of its electrical energy requirements. Our investment in these projects during the year under review was Rs. 13.3 million whilst cumulative investment to date stands at Rs. 116.6 million.

### **Corporate Social Responsibility**

The Company's policy and programme in respect of CSR are centred around good governance, welfare of employees and care for the environment. Good governance is central to our management policies and practices. It is institutionalised to ensure accountability and responsibility to stakeholders. Programmes and projects are undertaken to improve the livelihood of our employees, by providing better housing and sanitation, healthcare, skills development and childcare. During the year, the MJF Foundation played a key role on our estates, especially to improve education and childcare. Sustainable agricultural practices and the use of renewable energy resources within our manufacturing processes, have reduced the carbon footprint of our operations on the environment.

### **Dividends**

The Board does not propose the payment of a final dividend, due to the reported loss for the year.

### **Awards**

The Company was adjudged the overall winner - Agriculture and Plantation Sector at the National Business Excellence Awards conducted by the National Chamber of Commerce, Sri Lanka.

### **Strategy and Prospects**

The resilience of the Company was commendable, firstly, in the face of the negative pressures exerted by the spill over of the global financial crisis into 2009 and thereafter, in contending with the drought that prevailed in the first quarter. Financial and operational strategies were in place to meet the challenge.

The challenge facing the Company right now is to return to profitability in 2010.

In this context, our strategy will seek to maximise returns from a bullish market and improve productivity in our core business. Sustaining the new wage structure will be a challenge, as its impact on the cost structure was significant. A positive feature of the Wage Agreement was the breakthrough achieved to include an incentive for productivity. Remunerative prices, worker productivity and favourable weather will prove to be critical in the coming year.

We also need to strengthen the international competitiveness of the industry. Some key areas that require attention are agricultural and industrial research, product development and promotion of Ceylon Tea as a strong brand in international markets.

With increased competition from new producer countries it is critical that all stakeholders take a holistic and pragmatic view of the industry, to ensure long-term viability. Maintaining a close dialogue with the authorities is a must for all stakeholders, to ensure that we can collectively evolve a national strategy for the industry.

With commodity markets more stable and new opportunities presenting themselves, with the end of the civil conflict in the country, we look forward with confidence to the year 2010.

### **Acknowledgements**

I thank all our employees for their efforts in service to the Company. I also wish to place on record my sincere gratitude and appreciation to our buyers, brokers and bankers for their continued support and my colleagues on the Board for their guidance and contribution in administering the Company during yet another challenging year.

*(Sgd.)*

**Mohan Pandithage**

*Chairman*

11th February 2010

# OUR STRATEGY WELL STRUCTURED...

It's all about delighting the customer, which we do by optimally blending manufacturing, people, estate management and product differentiation into one seamless strategic direction.



# MANAGEMENT REPORT

## Tea Industry at a Glance

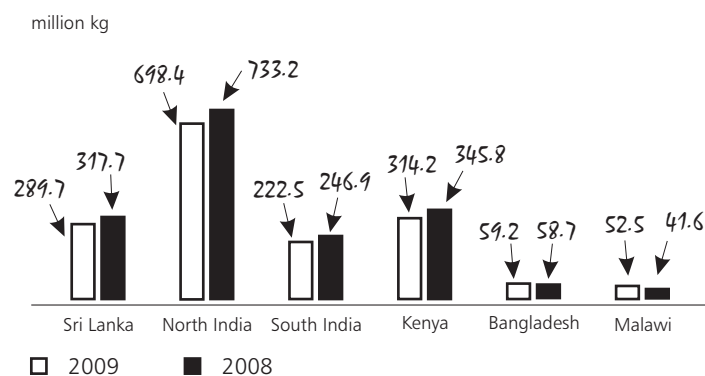
### World Tea Production

The industry entered the year 2009, amidst the commodity crash in the fourth quarter of 2008, consequent to the global financial crisis.

Global tea production in 2009, declined significantly with leading producing countries such as Kenya, Sri Lanka production being 60.5 million kg lower to 2008. This shortfall in production, with no increase in India had a favourable impact on prices. The cumulative deficit as at end December was 70-80 million kg globally.

### Production of Major Tea Producing Countries

As at end December	2008 million kg	2009 million kg
Sri Lanka	317.7	289.7
North India	733.2	698.4
South India	246.9	222.5
Kenya	345.8	314.2
Bangladesh	58.7	59.2
Malawi	41.6	52.5



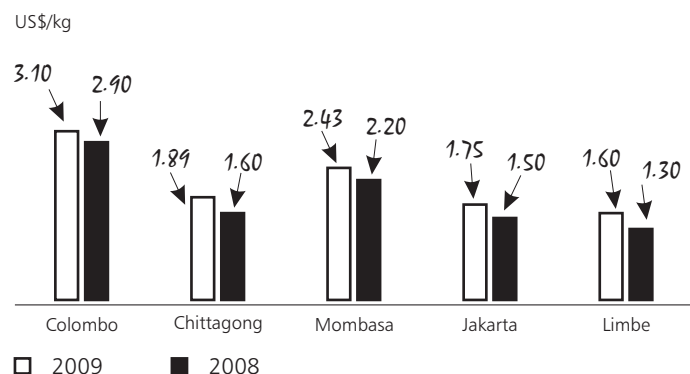
### World Auction Prices

All major auction centres recorded higher prices over 2008 due to supply constraints. World prices were on an upward trend, significantly moving up from the third quarter onwards. This was mainly due to supply constraints emerging with demand picking up, from key international markets mainly the Gulf and the CIS countries.

The Colombo Auction Average Price continued with No. 1 slot at US\$ 3.10 per kg with an increase of US\$ 0.20 followed by Mombasa (an increase of US\$ 0.23).

### World Auction Prices

As at end December	2008 US\$/kg	2009 US\$/kg
Colombo	2.9	3.10
Chittagong	1.6	1.89
Mombasa	2.2	2.43
Jakarta	1.5	1.75
Limbe	1.3	1.60



### Sri Lanka Exports

Total Sri Lanka tea exports up to end December 2009 was 263.5 million kg, which shows a deficit of 27.4 million kg as against 290.9 million kg of the corresponding period of 2008. However, the average unit FOB value for January-December 2009 of Rs. 464.47 per kg shows a growth of Rs. 26.11 per kg against Rs. 438.36 per kg realised during the same period last year.

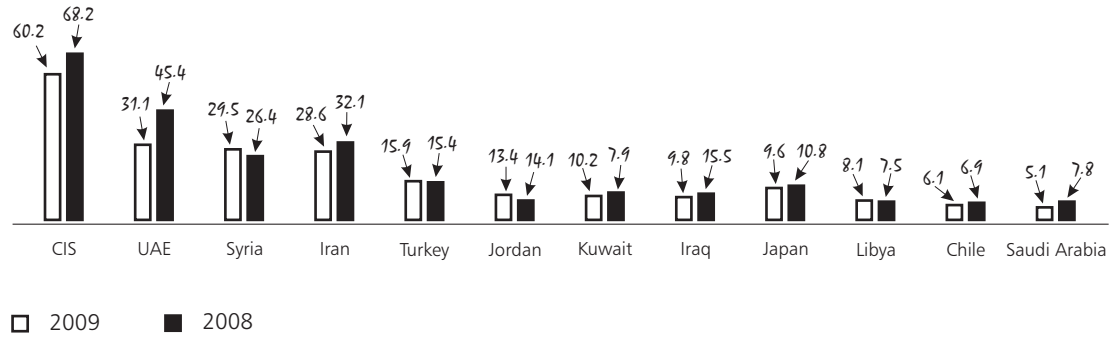
Analysing the main categories of exports, teas in bags have shown a growth in volume, whilst tea in bulk and tea in packets have shown a decrease compared to the same period of 2008.

CIS countries continued to be the largest importer of Sri Lanka tea.

Exports to Syria and Turkey have shown an increase in 2009, whilst other main importers showed a decline.

### Sri Lanka Tea Exports

million kg

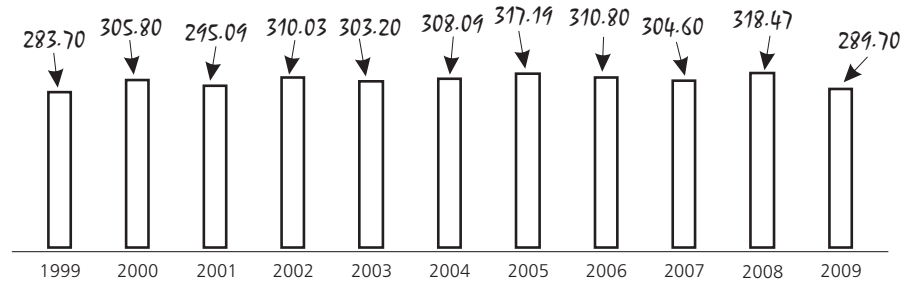


### Sri Lanka Tea Production

Adverse weather conditions kept production to 289.7 million kg which was a deficit of 28.9 million kg (9%) in relation to 2008. Drought conditions in the first quarter impacted tea production. The 2009 Sri Lanka black tea production was the lowest since 2000, when production was 283.7 million kg. High and low grown elevations recorded the largest decline of 11.8 million kg from each elevation from last year.

### National Tea Production 1999-2009

million kg



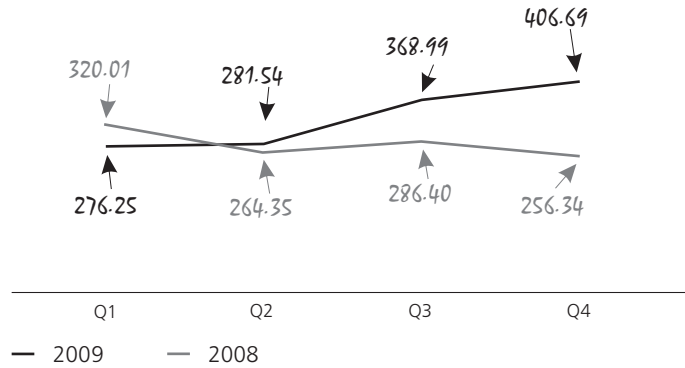
### Sri Lanka Tea Prices

The Colombo Tea Auction recorded a strong market for the year. A global crop shortfall contributed to the buoyancy of the market. Tea prices during the year continued an upward trend over the previous year. A steady increase was witnessed in high-grown GSA from quarter to quarter. Whilst the low-grown GSA reached the all time high quarterly elevation of Rs. 429.94 per kg during the 3rd quarter.

### Gross Sale Average by Elevation

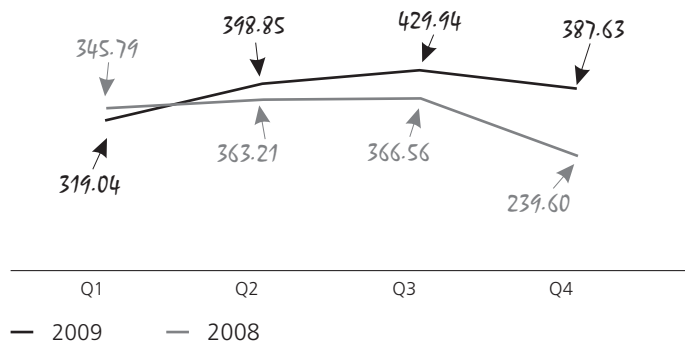
#### Quarterly High Grown Gross Sale Averages

Rs/kg

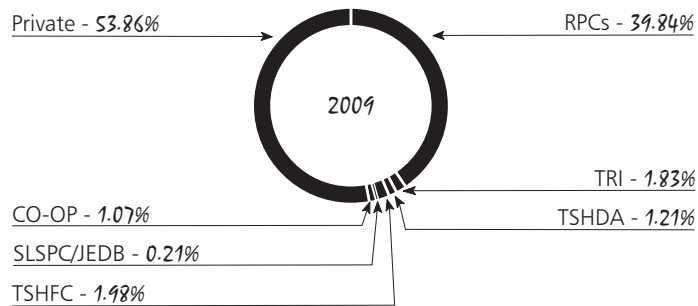


#### Quarterly Low Grown Gross Sale Averages

Rs/kg



### Industry Structure



**Industry Structure**

	2008	2009
	%	%
A - RPCs	40.53	39.84
B - TRI	1.83	1.83
C - TSHDA	1.21	1.21
D - TSHFC	1.98	1.98
E - SLSPC/JEDB	0.21	0.21
F - CO-OP	1.07	1.07
G - Private	53.17	53.86

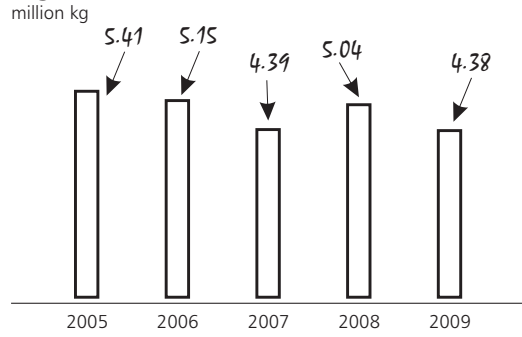
The Regional Plantation Companies and the Small-Holder Sector (private) are the major producers accounting for 93.7% of National Tea Production. The Small-Holder Sector accounts for the largest share - 53.8%. The significant difference between the two producers is that, the Small-Holder Sector produces mainly the low grown teas, and the Regional Plantation Companies produce virtually all the high grown teas.

**National Tea Production**

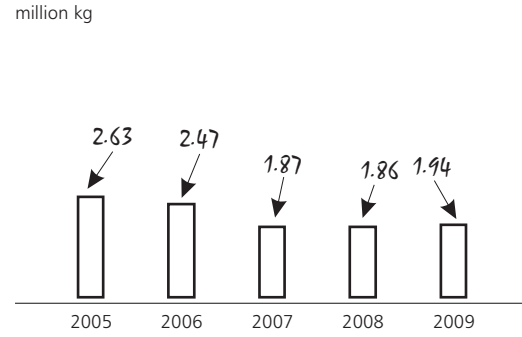
	National Tea Production (million kg)	GSA HG (Rs./kg)	GSA LG (Rs./kg)
1991	240.80	57.41	61.75
1992	178.80	66.45	61.90
1993	232.00	68.34	71.48
1994	242.20	66.30	67.38
1995	246.00	70.04	77.27
1996	258.40	93.38	114.35
1997	276.80	109.43	129.47
1998	280.00	127.06	141.88
1999	283.70	106.17	125.74
2000	305.80	128.46	144.79
2001	295.09	135.56	154.50
2002	310.03	141.73	160.55
2003	303.20	138.31	160.86
2004	308.09	171.78	189.86
2005	317.19	172.24	199.01
2006	310.80	204.58	204.50
2007	304.60	252.46	298.66
2008	318.47	273.83	336.38
2009	289.70	319.73	387.70

**TTE PLC - Tea Production**

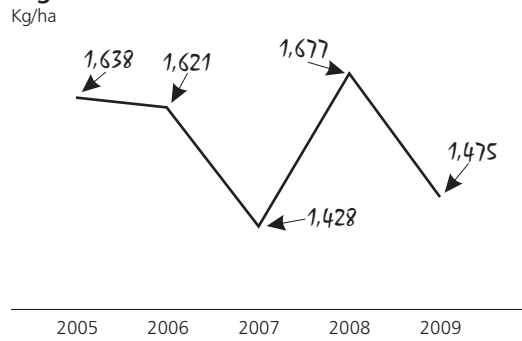
**High Grown Tea Production**



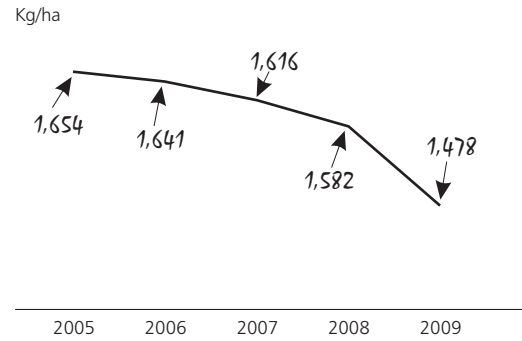
**Low Grown Tea Production**



**High Grown Tea - YPH**



**Low Grown Tea - YPH**



## Operations Review

The year 2009 was the most challenging one since the privatisation of the Company, in 1998. The global financial meltdown that began in the fourth quarter of 2008 rolled over into the first quarter of 2009 continuing to depress global demand for tea, due to the credit crunch. This was further exacerbated by the most severe drought experienced in Sri Lanka in over a decade, affecting tea crop and field development.

Whilst tea prices were on an upward trend, the serious shortfall in production had a major impact on operations and cash flows. With production improving in the second quarter and prices remaining higher than the previous year, the Company continued to record profits as at end June 2009, albeit at lower levels than the previous year.

Third quarter production was affected once again by work disruptions arising from the agitation for a wage increase by the Plantation Unions. The Wage Agreement signed in September which came into effect from April 2009, affected our bottom line results as at end September 2009, to record a net loss after tax of Rs. 135.9 million.

Thankfully however, our fourth quarter results turned out to be the best for the year. Tea production during this period was at its highest for the year, and with a strong market for teas prevailing at the Auctions, the profits earned during this quarter helped to substantially reduce the loss as at end September 2009. Thus, TTE PLC was able to reduce its net loss for the year.

Our team's focus on achieving key performance indicators and their dedication to producing a quality tea, made a difference to an otherwise difficult year.

### ***Agricultural and field operations... challenged this year***

With the onset of dry weather conditions from December 2008, the first quarter of 2009 experienced drought conditions, very similar to those that prevailed in 1992 which posed many challenges.

The field development programme was affected, with a large number of plants needing to be re-supplied, whilst replanting programmes had to be held back.

The timing of key agricultural operations such as harvesting, pruning and fertiliser application were carefully planned and carried out. Harvesting was carried out to ensure quality leaf was available for manufacture. This was achieved through optimal manpower planning and deployments. Attention was also paid towards minimising waste and optimising yields within the fertiliser programme, as it is one of the most expensive facets of our field operation.

High priority was attached to soil improvement. Most of our estates have initiated soil nourishing compost projects, and have also adopted good agricultural practices to reduce soil erosion, and improve nutrient content. These practices include vetiver planting, retaining all leaf litter, soil sampling and correction of nutrient deficiencies.

**Company production... declined by 589,471 kg**

Tea production recorded during the year under review of 6,312,837 kg showed a decline from 6,900,577 kg that of last year. The year's production was the lowest since 1993, during which year production reached 5,365,696 kg.

The main negative influencing factor was the drought in the first quarter of 2009. Production during this period was 625,654 kg lower than that of the corresponding period in 2008. Our total production for the year was 587,740 kg lower than that of the previous year. The increase in bought leaf production from last year minimised the decline in estate leaf tea production.

High grown estate leaf crop declined by 665,174 kg and low grown by 92,653 kg.

Improved weather conditions that prevailed from the second quarter onwards contributed very favourably to mitigate the negative situation. In this context, the record crop of the fourth quarter reduced the crop shortfall for the year when compared with the total production levels of the previous year.

High grown yield for the year at 1,475 kg/hect. was 88% of last year's 1,677 kg/hect. and the low grown at 1,478 kg/hect. was 93% of the previous year's 1,582 kg/hect.

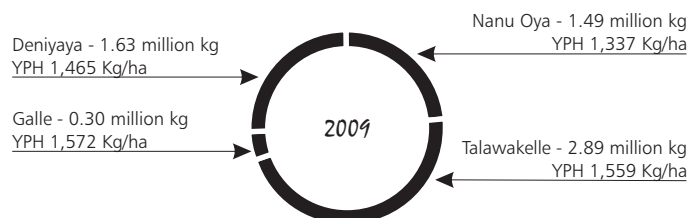
**Quarterly Tea Production 2009 vs. 2008**

	1st Qtr		2nd Qtr		3rd Qtr		4th Qtr		Total	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Production kg '000	1583	958	1782	1649	1305	1222	1453	1538	6124	5366
Bought Leaf kg '000	203	147	200	264	185	274	190	262	777	947



The agro climatic region contribution to tea production for the year is detailed below:

**TTE PLC Tea Production 2009**



**Bought Leaf**

Total production at 947,141 kg exceeded that of the previous year by 122%. The share of bought leaf in total production in the year was 15% of total production and 49% of Low Grown production.

A concerted effort to build up supplier relations and higher prices paid, improved bought leaf intake at our factories. Deniyaya and Handford production was 130% and 207% respectively over last year, a commendable performance in a competitive environment.

**Tea Prices... increased by Rs. 51.43 per kg**

Prices increased in the first quarter of 2009 over those prevailing during the last quarter of 2008, but were still lower in comparison to the first quarter of 2008. Thereafter, we witnessed a continuing upward trend over last year, driven by a global shortfall in crop of 70-80 million kg and renewed demand from the key international markets mainly the Gulf and CIS countries.

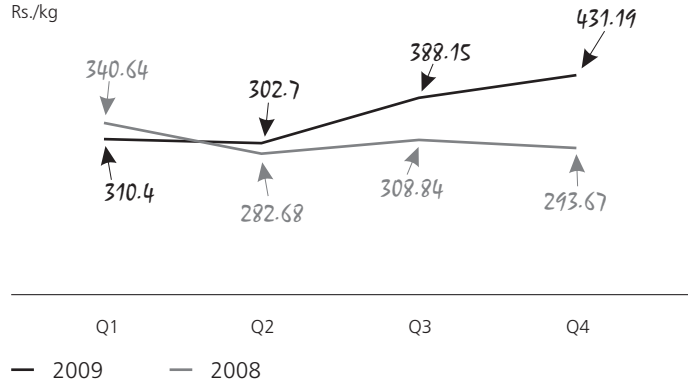
TTE PLC's product differentiation strategy produced a quality tea and met market demand by offering the right grade mix. This maximised our capacity to command price and the Company was ranked Number One in the Western High Growns and Low Growns amongst other RPCs at the Colombo Auctions in 2009.

**TTE PLC Tea Prices 2009 Vs 2008**

GSA Rs/kg	1st Qtr		2nd Qtr		3rd Qtr		4th Qtr		Todate	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
HG	340.64	310.40	282.68	302.07	308.84	388.15	293.67	431.19	306.64	354.03
LG	360.01	330.58	379.89	418.76	378.06	455.12	240.43	407.56	346.09	404.05

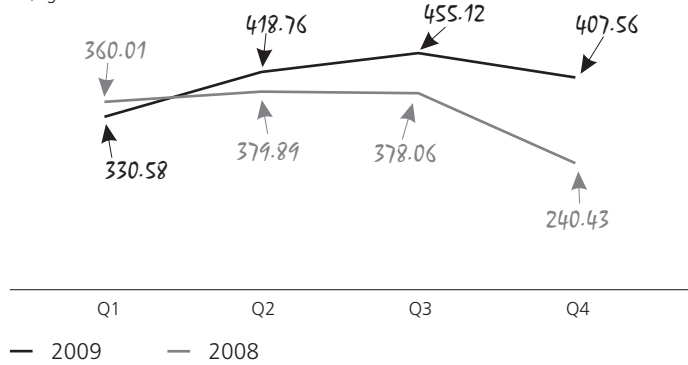
**High Grown GSA - TTE PLC**

Rs./kg



**Low Grown GSA - TTE PLC**

Rs./kg



The third quarter yielded the highest prices for Low Growns, whilst the fourth quarter yielded the highest prices for High Growns, for the year under review.

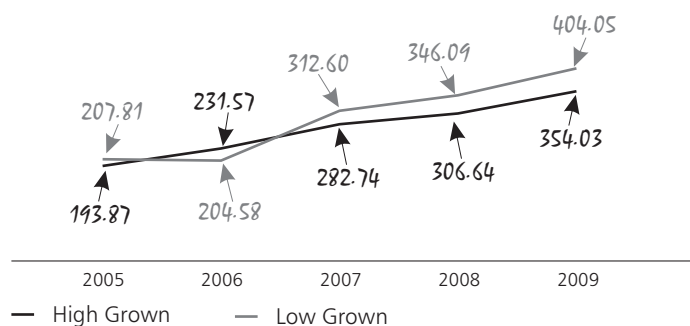
During the year, seven of our estate marks were within the first ten rankings in the Western High Grown catalogue. Mattakelle was ranked number one in this segment. Also, ten of our High Grown marks and three of our Low Grown marks were above their respective national averages.

The Gross Sale Average (GSA) for the year was Rs. 368.27/kg, which was an increase of Rs. 51.43/kg when compared to last year's GSA of Rs. 316.84/kg.

**TTE PLC High Grown and Low Grown GSA**

Trend from 2005 to 2009

Rs./Kg

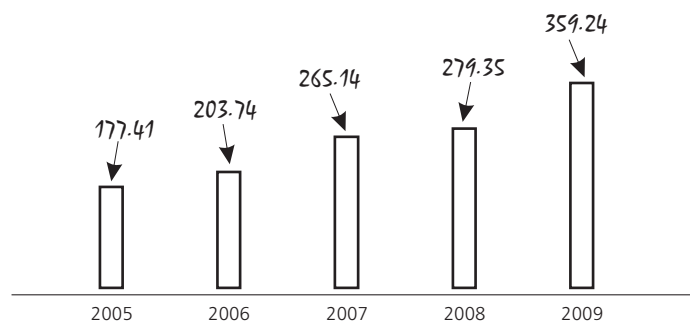


**Cost of Production... increased by Rs. 77.72 per kg**

Cost of Production - High Grown & Low Grown

**Cost of Production (Combine)**

Rs./kg



COP Rs./kg	2005	2006	2007	2008	2009
HG	172.66	203.08	261.88	269.37	352.37
LG	187.17	205.12	272.83	306.44	367.68
Combine	177.41	203.74	265.14	279.35	359.24

A decline in yield due to drought conditions and increase in wage cost contributed to the steep increase in cost of production in 2009. The decline in yield also had a negative impact on worker productivity.

Reduction in fertiliser and fuel costs however provided some relief.

The cost of production in the year was Rs. 357.07/kg as against Rs. 279.35/kg for last year, which is an increase of Rs. 77.72/kg.

The increase in estate leaf cost of production was Rs. 80.35/kg and bought leaf was Rs. 51.35/kg. The increase in cost of bought leaf was due to an increase in the green leaf rate paid out as a consequence of a higher GSA being received at the Auctions.

**Key Contributors to Cost of Production**

	Unit	2006	2007	2008	2009
Urea	Rs./MT	35,500	51,500	92,000	47,000
Wages	Rs./Day	285.50	320.00	320.00	447.75
Fuel	Rs./Litre	60.00	75.00	105-80	73.00
Total COP	Rs./Kg	203.74	264.74	279.35	359.24

**Estate Profitability excluding Sundry Income... declined by Rs. 100.9 million**

**Five year table of estate profits**

Profit Rs/Mn	2005	2006	2007	2008	2009
HG	114.83	146.34	116.41	161.50	38.06
LG	38.83	1.00	95.84	38.72	61.21
Combined	153.66	147.34	212.25	200.22	99.26

The profitability for the year was Rs. 99.2 million, a decline from Rs. 200.2 million from last year. The High Grown estates recorded a profit of Rs. 38.0 million whilst Low Growns achieved a profit of Rs. 61.2 million.

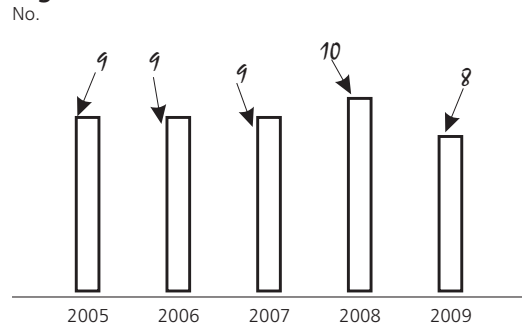
Here again, the wage increase and the drought depressed profitability. Total profits declined by Rs. 100.9 million from last year. The reduction from the High Growns amounted to Rs. 123.4 million as Low Growns increased their profits by Rs. 32.1 million from the previous year, mainly from bought leaf.

The impact of the wage increase and the related gratuity liability on High Growns was greater than Low Growns, due to the large workforce on these estates. The Low Growns also enjoyed a higher price for their teas at the auctions.

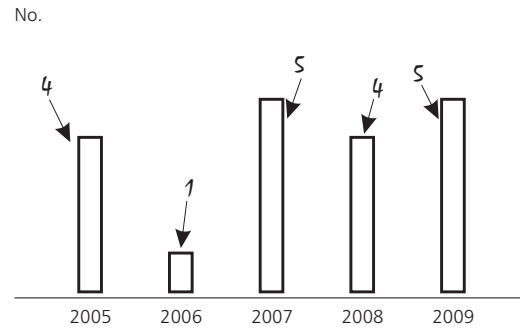
The profit/hect. of the High Grown estates was Rs. 12,825/- and for Low Growns was Rs. 67,082/-.

**No. of Estates making Profits (before Sundry Income)**

**High Grown**



**Low Grown**



Eight estates out of twelve recorded lower profit levels than last year in the high grown category. The performance of Mattakelle, Bearwell, Logie, Wattegoda and Calsay was commendable, as their reduction in profit/hect. was relatively low.

All low grown estates recorded an increase in profits over last year except Moragalla. The performance of Kiruwanaganga, Deniyaya and Handford was creditable. Kiruwanaganga increased its profit by Rs. 13.2 million whilst bought leaf operation was the main factor in Deniyaya and Handford increasing their profits by Rs. 10.1 million and Rs. 10.4 million respectively.

The bought leaf operation made a profit of Rs. 25.8 million, which was an increase of Rs. 23.5 million over last year.

Increase in leaf intakes and improved prices contributed to these results.

**People who drive our business**

It was a year of turbulence in our human resource and industrial relations sphere. The subject of wage increase and its attendant implications for Company and worker was unfortunately not resolved without repercussion.

OUR FOCUS IS  
ON PLACING  
THE BEST BREW  
ON THE TABLE...

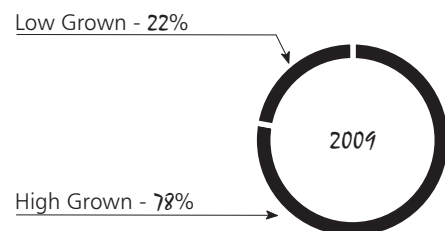
We make sure that our 'business brew' is an optimal blend of 'liquor', 'fragrance' and 'flavour' that allows us to continue producing quality teas even under pressure.

**Employees by Age Group**

Age Group	Number of Employees	
	Staff Members	Workers
< 25	15	1,105
25 - 30	60	1,534
30 - 40	176	3,214
40 - 50	148	2,990
Over 50	177	1,676
<b>Total</b>	<b>576</b>	<b>10,519</b>

**Workers by Region**

**No. of Employees**



The total number of employees as at end of 2009 was 11,095.

During the year under review, an investment of Rs. 42.4 million was made to improve housing, sanitation and related infrastructure.

Many training and development programmes were undertaken to improve skills and competencies at an expenditure of Rs. 4.2 million.

In addition, a sum of Rs. 92.8 million was expended on welfare and related activities. These relate to medical, childcare, housing, sports and recreation.

Industrial relations during the third quarter were affected due to an agitation for a wage increase. Many estates reported go slows and despatch of teas was interrupted. A Wage Agreement was signed on 16th September, which came into effect from 1st April 2009.

Under its terms, the daily wage rate increased by 42.5%, with a significant cost implication to the Company. The incorporation of a productivity incentive was a welcome breakthrough. The Agreement will be valid for a period of two years ending March 2011.

Our collective challenge lies in improving worker productivity in 2010.

***Field and Factory Development***

Whilst we probably shouldn't refer to the year 2009 as our '*annus horribilis*', it was certainly a year beset with extreme pressure and challenge.

The Company kept its focus on producing quality teas. In this pursuit, it was incumbent on us to care for resources and processes vital to the business of producing quality teas.

Thus, our efforts at developing field and factory were pursued with undiminished vigour.

***Replanting Extent***

Hectares	Uprooted		Planted	
	2008	2009	2008	2009
High Grown	87.05	55.46	63.50	30.00
Low Grown	26.11	25.68	32.49	20.45
Total	113.16	81.14	95.99	50.45

***Fuelwood Planted Extent***

Hectares	2007	2008	2009
High Grown	43.00	56.94	65.72
Low Grown	10.00	29.95	22.45
Total	53.00	86.89	88.17

***Field Development and Fuelwood Diversification***

The total field development expenditure for the year was Rs. 181.6 million. The accelerated replanting programme continuing from 2005 is to improve the medium-to long-term yields of the Company. During the period 2000 to 2009, an extent of 487.65 hect. has been brought in to revenue.

The planned replanting programme was reduced during the year whilst the extent planted was 50.4 hect. of which 30 hect. was in the high grown sector and 20.45 hect. in the low grown.



The drought conditions had an adverse effect on the field development programme for 2009. The replanting programme was delayed and 750,798 plants had to be re-supplied due to heavy plant loss.

During the year, 84.64 hect. were uprooted. Presently, we have 268.9 hect. in grass to be planted, and 227.22 hect. are at an immature stage.

Fuelwood planting is an integral component of our strategy to be independent from fossil fuels and be environmentally friendly. Under the programme, a concerted effort is under way to ensure adequate fuelwood is available for each estate to be self-sufficient in energy.

The cumulative extent of fuelwood planted from 2000 to 2009 is 312.27 hect.

***Factory Development Rs. 44.1 million***

During the year, many factories were upgraded to improve process efficiency, product quality, save on energy costs, and improve worker welfare facilities. The factories covered were Holyrood, Deniyaya, Radella, Kiruwanaganga, Handford, Mattakelle, Dessford, Wattedoda, Bearwell, Logie, Moragalla, Somerset, Great Western and Calsay. They included installation of moving trough beds, installation of a tea drier, automation of sifting room operations, adding and/or replacing cleaning and sorting machinery, installation of conveyers, energy saving equipment, and extending and upgrading factory buildings to conform to ISO requirements.

Upkeep of machinery and factory buildings is carried out to ensure uninterrupted production. An expenditure of Rs. 40.8 million was incurred on factory upkeep and machinery maintenance during the year.

***The Path Before Us...***

The industry is challenged with factors such as weather, yield, cost of production and prices at the Auction - all of which can exert positive or negative influences as the case may be.

The tasks ahead are challenging. Yet, TTE PLC has always been a producer of quality teas, commanding the best-going prices.

Thus, our goal in 2010 and beyond will be to remain competitive, increase earnings and improve return on investment.

## Financial Review

A change in the Actuarial Valuation assumption had a negative impact of Rs. 73.1 million on the year's results, in addition to the wage and related gratuity cost arising from the new Collective Agreement effective from April 2009.



The financial year 2009 was a very difficult year. The Company posted its first net loss since privatisation in 1998. The spill over effects of the global financial crisis, a severe drought, and a steep increase in wage cost were the key challenges faced during the year. The Group net loss for the year was Rs. 30.4 million, a reversal from a net profit after tax of Rs. 108.0 million in 2008. The Company's net loss for the year was Rs. 13.8 million compared to a net profit after tax of Rs. 110.6 million last year. A good fourth quarter performance mitigated the adverse results as at end September. The Hydro Power Sector posted a net loss after tax of Rs. 16.6 million an increase from the previous year. Power generation was affected due to the impact of drought, disruption to the Somerset Plant and high finance cost.

### Revenue

#### **Consolidated Revenue grew by 14.3% to Rs. 2,587.8 million**

The Group turnover at Rs. 2,587.8 million was an increase of 14.3% from last year. The Company turnover at Rs. 2,501.2 million increased by 11.6% and Hydro Power sector at Rs. 77.9 million increased more than two fold. Tea turnover at Rs. 2,451.1 million increased by Rs. 264.3 million (12.0%) and was contributed by Rs. 1,669.0 million from high grown and Rs. 782.1 million from low grown. High and low grown turnover was 5.6% and 31.3% above last year. An increase in tea price of 21.4% per kg received by the Company over last year minimised the impact on turnover, due to a decline in production by 8.5%. A significant improvement in turnover in the fourth quarter, due to higher tea production and prices contributed to the year's turnover growth, after a major setback in the first quarter consequent to the drought. Other income decreased by Rs. 1.1 million to Rs. 38.0 million.

#### **Group Revenue 5 Years**

Group	2005 Rs. million	2006 Rs. million	2007 Rs. million	2008 Rs. million	2009 Rs. million
Tea	1,575.7	1,693.9	1,867.4	2,186.8	2,451.1
Rubber	11.3	16.3	25.0	21.8	20.8
Other	32.6	20.2	26.7	39.1	38.0
Hydro Income	–	1.3	5.2	16.3	77.9
Group Turnover	1,619.6	1,731.6	1,924.4	2,264.1	2,587.8

**Quarterly Revenue Group 2009**

For the Quarter Ended	31.03.2009	30.06.2009	30.09.2009	31.12.2009	Year Ended	
	Rs. million	Rs. million	Rs. million	Rs. million	Total 2009 Rs. million	Total 2008 Rs. million
Tea	365.6	638.0	639.1	808.4	2,451.1	2,186.8
Rubber	5.7	2.0	4.2	8.9	20.8	21.9
Others	7.1	7.8	6.8	16.3	38.0	39.1
Hydro	5.8	17.9	30.8	23.4	77.9	16.3
Total	384.2	665.7	680.9	857.0	2,587.8	2,264.1
Total Cumulative	3w84.2	1,049.9	1,730.8	2,587.8	2,587.8	2,264.1

**Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)**

**Group EBITDA Rs. 296.0 million in 2009 - declined during the year - Rs. 44.7 million**

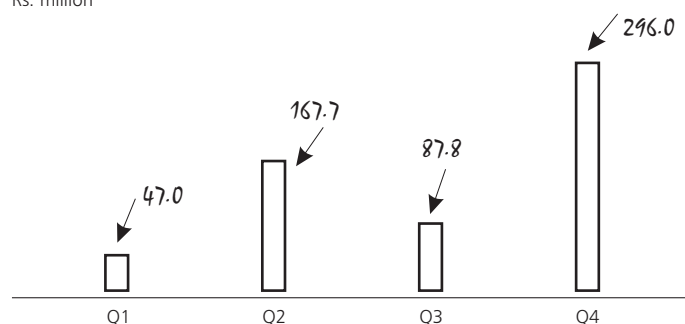
The Group EBITDA for the year declined by 13.1% to Rs. 296.0 million. A sharp decline in EBITDA in TTE PLC by Rs. 88.9 million had an adverse impact. The Company's EBITDA was affected with a decline in gross profits during the year. The Hydro Power sector recorded an increase in EBITDA, to Rs. 63.9 million, mainly due to an increase in turnover over last year. However, an increase in administrative costs had a somewhat negative impact.

**Quarterly EBITDA Group**

Group	Q1	Q2	Q3	Q4
	Rs. million	Rs. million	Rs. million	Rs. million
2009	47.0	167.7	87.8	296.0
2008	145.9	243.8	309.2	340.7

**Movement in Group Quarterly EBITDA 2009**

Rs. million



**EBITDA for 5 Years**

	2005	2006	2007	2008	2009
	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million
Group	242.8	253.6	326.0	340.7	296.0
Company	242.6	251.4	324.3	321.0	232.1

## Gross Profit

### Gross Profit Declined by Rs. 55.0 million in the year

The Group's gross profit at Rs. 245.1 million was a steep decline from last year's Rs. 300.0 million. The impact of the wage increase effective from April 2009, and the related gratuity liability adjustment of Rs. 303.8 million had a negative impact on TTE PLC's gross profit. The Company's gross profits declined by Rs. 115.5 million to Rs. 173.4 million in 2009. Estate profits, the major contributor to gross profit, declined by Rs. 120.8 million. The high grown profit reduced by Rs. 130.4 million and low grown increased by Rs. 9.6 million over last year, contributed by bought leaf profits. A significant increase in gross profit was noted in the fourth quarter driven by an increase in turnover. The Hydro Power sector gross profit of Rs. 71.7 million was an increase of Rs. 60.6 million from last year.

### Gross Profit Movement over 5 Years

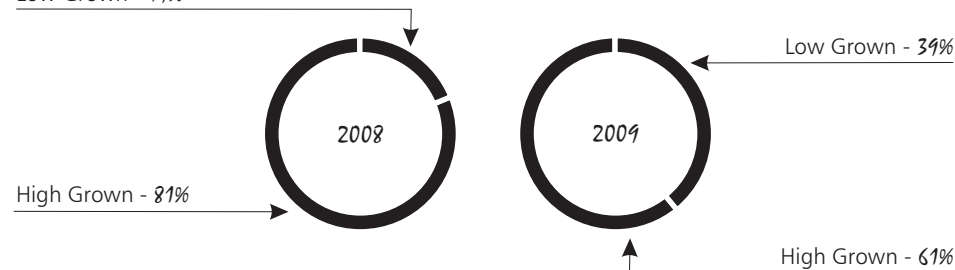
	2005 Rs. million	2006 Rs. million	2007 Rs. million	2008 Rs. million	2009 Rs. million
Group	220.2	218.3	289.3	300.0	245.1
Company	220.2	216.9	284.0	288.9	173.4

### Estate Quarterly Gross Profit 2009 vs 2008

	Q1 Rs. million	Q2 Rs. million	Q3 Rs. million	Q4 Rs. million	2008 Rs. million	2009 Rs. million
High Grown	20.4	49.7	(22)	49	227.5	97.1
Low Grown	10	45.9	15.8	-9	53.1	62.7

### Estate Profit by Elevation

Low Grown - 19%



### Actuarial Valuation Policy

#### Additional Charge to the year Rs. 73.1 million

A change to the Actuarial Valuation Assumption was made during the year. Accordingly, the rate of salary increase of workers was increased from 11% to 18.5%, every two years and for staff from 7.5% to 10% per annum. The consequent adjustment charged to the current year is Rs. 73.1 million. The change in the policy is more fully explained in Note 2.3.14 under Accounting Policies.

## Finance Cost

### Increased by Rs. 71.3 million

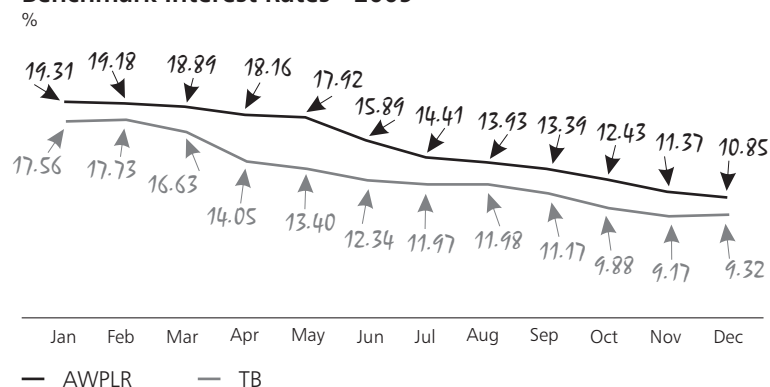
The Group's finance cost increased by Rs. 71.3 million (55%) to Rs. 201.1 million in the year. The increase is due mainly to higher borrowing levels and the prevalence of high interest rates in the first half of the year. A reduction in interest rates in the second half had a favourable impact on finance cost. The higher finance cost was mainly attributable to the Hydro Power Sector.

Finance cost of TTE PLC was Rs. 140.3 million, an increase of Rs. 26.0 million from Rs. 114.3 million in the previous year. Short-term borrowings to meet cash flow deficits in the first half increased finance cost. Restructuring the loan portfolio by reducing short-term borrowings and a reduction in market interest rates, reduced finance cost in the second half. After taking credit for interest income, included under other operating income, overall finance cost was lower.

The average cost of funds at 14.4% was a decrease from 2008 at 15.5%.

The interest cover for the year at TTE PLC was 0.86 times a decline from 1.98 times, last year. The impact of the wage increase on profitability reduced the interest cover.

### Benchmark Interest Rates - 2009



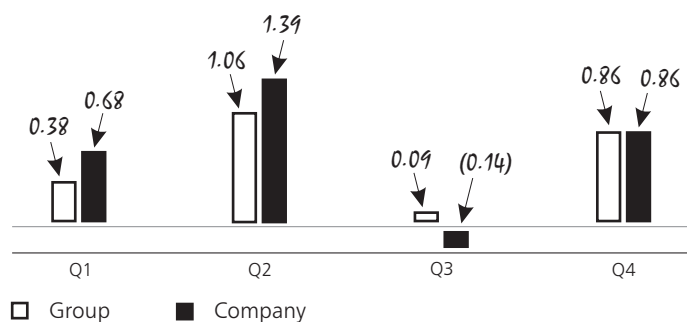
### Benchmark Interest Rates 2009 vs 2008

#### AWPLR 2009 vs 2008 (%)

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
AWPLR 2008	19.42	18.54	18.61	18.26	18.70	19.07	18.15	17.81	20.38	20.72	20.72	18.20
AWPLR 2009	19.31	19.18	18.89	18.16	17.92	15.89	14.41	13.93	13.39	12.43	11.37	10.85

### Quarterly Movement in Interest Cover 2009

Times



For the Quarter	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Interest Cover (Times)				
Group	0.38	1.06	0.09	0.86
Company	0.68	1.39	(0.14)	0.86

### Taxation

The Company is not liable for income tax for the year in lieu of the losses incurred. Unrecoverable ESC of 2005 & 2006 amounting to Rs. 7.1 million has been charged to income statement. Deferred tax provision as at year end has been reduced by Rs. 12.3 million to Rs. 10.5 million arising from the reversal of the timing difference from a decline in profits.

Hydro Power Company's tax comprised of a deferred tax charge of Rs. 7.7 million.

### Capital Expenditure

#### Group Investment decrease by Rs. 342.6 million

	2005 Rs. million	2006 Rs. million	2007 Rs. million	2008 Rs. million	2009 Rs. million
Field	70.3	76.1	122.8	209.3	181.6
Non-Field	68.8	144.2	64.5	140.1	60.5
Hydro	–	17.8	164.3	257.2	21.9
Total - Group	139.1	238.1	351.6	606.6	264.0

The Group's investment during the year was Rs. 264.0 million, TTE PLC's investment was Rs. 242.1 million and TTEL Hydro Power Company and TTEL Somerset Hydro Power Company were Rs. 21.9 million.

TTE PLC incurred a capital expenditure of Rs. 181.6 million and Rs. 60.5 million in field and non-field development respectively. This was a decline from the previous year. ADB concessionary funding and grant funding was received to part finance, capital expenditure in field and social infrastructure respectively.

## Investment in Subsidiaries

### Short-Term Funding - Rs. 13.3 million

No additional investment in equity was made during the year. However, funding amounting to Rs. 2.8 million in TTEL Hydro Power and Rs. 10.5 million in TTEL Somerset Hydro Power was made, to finance project cost. These amounts are reflected under amounts due from related companies in Note 31 to the Financial Statements.

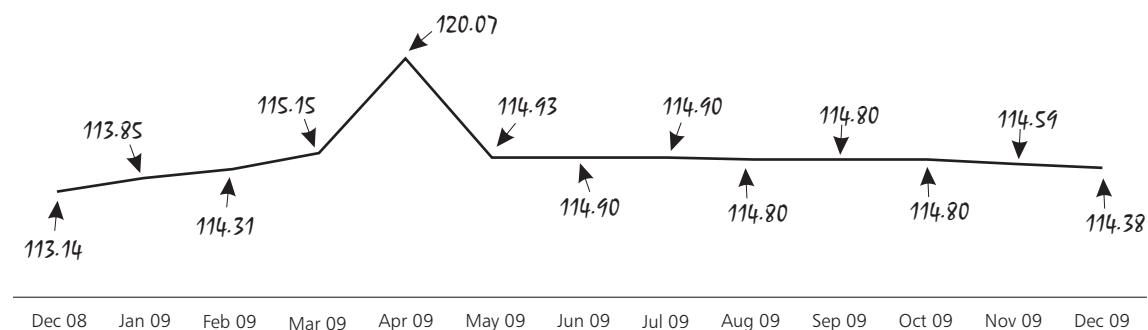
## Dividends

The Board does not recommend a dividend for the year. A final dividend for 2008 amounting to Rs. 1.25 per share was paid in 2009.

	2005 Rs. million	2006 Rs. million	2007 Rs. million	2008 Rs. million	2009 Rs. million
Dividends Paid	35.6	95.0	Nil	59.3	29.7

## Exchange Rate Movement in 2009

USD/LKR



## Exchange Rates

The exchange rate of the US Dollar to the Rupee has an effect on earnings through its influence on prices fetched by tea at Colombo Tea Auctions. The Sri Lanka Rupee depreciated by only 1%. This compares to much higher depreciation/devaluation seen in other countries, both end-destinations for our tea and competing producers, leading to pressure on margins.

## Capital Structure

### Debt/Equity Increased to 98.6%

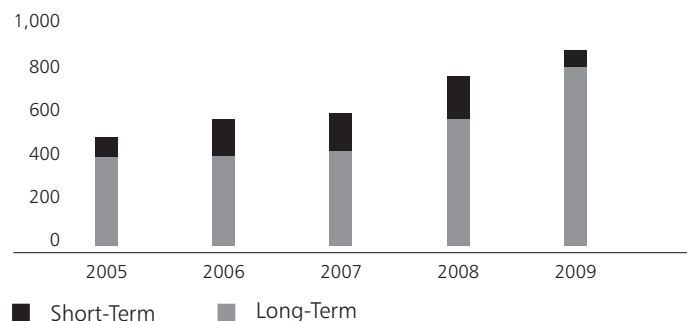
During the year, the debt profile of the Company significantly changed, with a reduction in short-term borrowings to 9% from 25.6% last year, in total bank borrowings. This restructuring of debt, has improved the financial capacity to handle the negative impact arising from liquidity risk.

**Bank Borrowings Movement over 5 years**

Company	2005 Rs. million	2006 Rs. million	2007 Rs. million	2008 Rs. million	2009 Rs. million
Short-Term	91.4	162.7	165.5	194.4	<b>78.9</b>
Long-Term	393.2	400.4	423.7	562.9	<b>797.4</b>
Borrowings	484.6	563.1	589.2	757.3	<b>876.4</b>

**Short-Term and Long-Term Bank Borrowings**

Rs. million



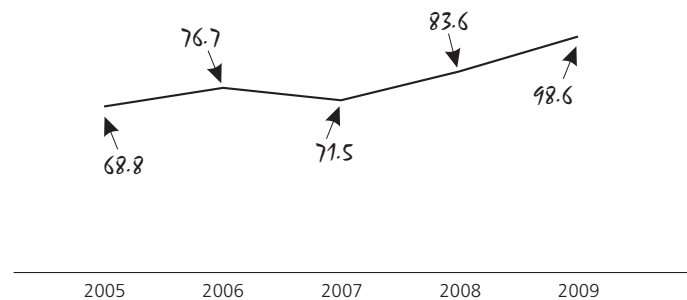
A decline in equity of the Company by Rs. 43.5 million and an increase in interest-bearing liabilities by Rs. 117.4 million increased debt/equity from 83.6% to 98.6% in 2009. A loss for the year reduced equity. TTE PLC equity and total borrowings at year-end was Rs. 1,026.4 million and Rs. 1,012.2 million respectively.

**Debt/Equity**

	2005	2006	2007	2008	2009
	%	%	%	%	%
Company	68.8	76.7	71.5	83.6	<b>98.6</b>

**Debt/Equity**

%





The Group level debt/equity was 124.4%, an increase from 109.1% last year. The Group debt increased by Rs. 97.3 million due to an increase in long-term debt of TTE PLC.

The current ratio of TTE PLC improved from 1.1 to 1.4 times mainly due to the short-term investment of Rs. 148.8 million in current assets of Rs. 762.8 million. The Group's current ratio was 1.2 times and net current assets was Rs. 103.0 million.

**Net Current Assets**

	2005 Rs. million	2006 Rs. million	2007 Rs. million	2008 Rs. million	2009 Rs. million
Company	(132)	(154)	(118.2)	32	233

**Cash Flow**

**Net Cash Flow Increased by Rs. 46.4 million**

The Company's net cash flow from operations in the year at Rs. 260.3 million was an increase of Rs. 46.4 million, from last year. The increase in gratuity liability provision had no effect on cash flow, despite a negative impact on profitability. A reduction in working capital investment also had a favourable impact on cash flow.

The net cash used in investing activities at Rs. 209.7 million was a decline of Rs. 63.5 million from last year, due to a reduction in capital expenditure.

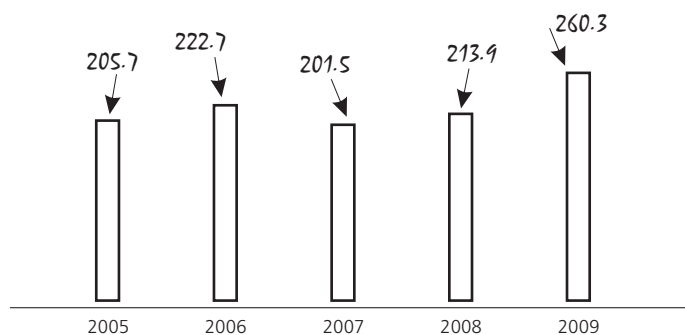
A restructuring of the loan portfolio, by converting short-term borrowings to long-term, had a favourable impact on liquidity. The resultant impact was an increase in cash and cash equivalent in the year by Rs. 243.8 million. This surplus contributed to wipe out the brought forward deficit in cash and cash equivalent of Rs. 134.3 million to record a surplus of Rs. 109.5 million at the year end.

The Hydro Power Sector recorded a surplus of Rs. 55.7 million in operations in the year. A significant reduction in capital expenditure reduced the net cash used in investing activities to Rs. 22.1 million, from Rs. 257.2 million last year. An increase in amounts due to related companies, contributed to the net increase in cash and cash equivalent during the year of Rs. 17.0 million.

The Group recorded a surplus of Rs. 115.0 million in cash and cash equivalents at the year end.

### Net Cash Flow

Rs. million



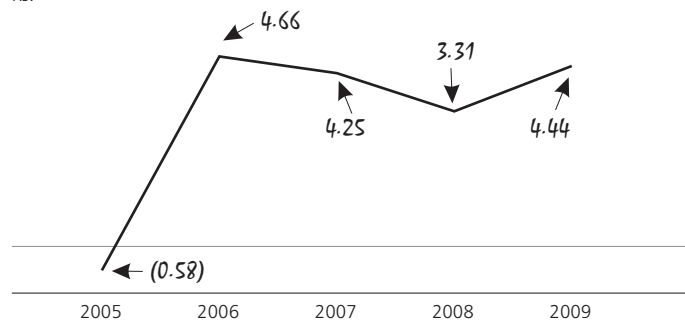
Net Cash Flow	2005 Rs. million	2006 Rs. million	2007 Rs. million	2008 Rs. million	2009 Rs. million
TTE PLC	205.7	222.7	201.5	213.9	260.3

### Performance Measurement

The basic earnings per share was negative at Rs. 0.58 during the year. A net loss for the year of Rs. 13.8 million compared to a net profit last year had a negative impact on EPS. The EPS last year was Rs. 4.66.

### Earnings Per Share - TTE PLC

Rs.



	2005 Rs.	2006 Rs.	2007 Rs.	2008 Rs.	2009 Rs.
EPS	4.44	3.31	4.25	4.66	(0.58)

**TTE PLC Share Price Movement**

The Company's share price closed at Rs. 25.25 compared to Rs. 13.00 in 2008. The price was influenced by the overall market sentiment as All Share Price Index increased from 1,503.02 points to 3,385.55 points and the Plantation Index from 369.89 to 635.52 points.

During the year, the share price reached a peak of Rs. 29.25 and a low of Rs. 13.50. The year-end price earnings ratio was (42.53) times vs 5.41 times in 2008. At year end, the market value per share was Rs. 25.25, representing a market capitalisation of Rs. 599.6 million.

The net asset per share decreased at year end to Rs. 43.21.

Shareholders' Funds	2005 Rs. million	2006 Rs. million	2007 Rs. million	2008 Rs. million	2009 Rs. million
TTE PLC	910.1	917.7	1,018.7	1,069.9	1,026.4
Group	910.1	919.5	1,019.0	1,062.8	1,010.9

	2005 Rs./share	2006 Rs./share	2007 Rs./share	2008 Rs./share	2009 Rs./share
TTE PLC share Price as at year end	17.00	25.25	35.75	13.00	25.25

**Financial Reporting**

Reliable and accurate financial reporting is an integral component of our commitment to good governance. We ensure timely delivery of quarterly and annual Financial Statements and its preparation as per accounting standards including compliance with Stock Exchange disclosure requirements.

**Summary of Quarterly Results of TTE PLC for 2009 vs 2008**

	Unaudited three months ended 31.03.2009 Rs. million	Unaudited six months ended 30.06.2009 Rs. million	Unaudited nine months ended 30.09.2009 Rs. million	Audited year ended 31.12.2009 Rs. million	Audited year ended 31.12.2008 Rs. million
Revenue	384.2	1,050.0	1,731.0	2,588.0	2,264.1
Operating Profit	40.2	152.1	56.2	245.1	300.1
Profit before Tax	(32.0)	7.1	(142.1)	(28.0)	112.0
Profit for the Period	(33.0)	(6.8)	(160.3)	(30.4)	108.0
Profit Attributed to:					
Equity Holders of the Parent	(23.2)	8.7	(148.4)	(22.3)	109.3
Net Profit/Loss for the Period	(33.0)	(6.8)	(160.3)	(30.4)	108.0
Total Asset	3,341.9	3,461.0	3,514.0	3,641.5	3,321.0

# COMPANY POLICIES ON HUMAN RESOURCE, HEALTH AND SAFETY, ENVIRONMENT AND QUALITY AND FOOD SAFETY



## HUMAN RESOURCE AND SOCIAL POLICY

- People will continue to be our **most valued resource** and we are committed to **nurture and develop** them consistently.
- Treating people at all levels with **dignity and respect** will be the **key guiding principle** of all our human resource management practices.
- We are committed to enhance the **quality of life, self-esteem and morale** of all our employees and create an environment in which people can use their **initiative, be creative, innovative** and unleash their **full potential**.
- **Training, empowerment, motivation** and recognition will be integral practices at all levels towards managing and developing human talents effectively.
- We are committed to provide **equal opportunities** for all employees and **prohibit any form of discrimination or discriminatory practices** in respect of all employment related activities.
- We **uphold and respect the freedom of association**, right to form and join trade unions and **bargain collectively**.
- We shall **prohibit any form of forced and bonded labour** in all our operations.
- We shall **not engage child and young workers** and the minimum age of employment would be **18 at all levels**.
- We shall comply with all applicable **labour laws, industry regulations and standards** on working conditions and payment of salaries, wages, overtime and other statutory dues.
- We shall **consult local communities** regarding plans for new projects, constructions, diversification, change of ownership or any other operational changes that affect the local communities and their views will be considered in the decision making process.
- We shall give priority to **local workers** for training and employment on estates.

## HEALTH AND SAFETY POLICY

- We are totally committed to provide a **safe and clean work environment** to all employees and ensure their **health and safety** at the work place.
- Towards achieving this objective, we shall adopt, **reasonably practicable preventive and protective safety measures** in all production and processing areas to manage **occupational hazards, risks and prevent accidents**.
- Employees will be regularly **trained and educated** on relevant health and safety aspects and will be **actively involved** in implementing health and safety programmes, through the establishment and efficient functioning of **Health and Safety Committees** spearheaded by respective Estate Managers
- We are committed to comply with applicable **National Health and Safety Laws and regulations** at all times.
- We shall carry out regular **health and safety risk assessments** and **review** Health and safety standards, programmes and objectives periodically to ensure **continual Improvements**.

#### ENVIRONMENTAL POLICY

- The environmental policy reviews the commitment of TTEPLC, in partnership with the **Plantation and local community to conserve and manage the environment** in which we operate for the benefit and well-being of the **present and future generations** within plantations and its neighbourhood.
- Towards achieving this objective, we shall pursue **environmentally friendly and responsible methods** in all our agricultural operations, field practices and manufacturing process to ensure that all **natural resources and ecosystems** will be managed in a **sustainable manner**.
- **Biodiversity and water sources** in particular will be **protected** through a well-managed **conservation programme**.
- We shall endeavour to conserve the usage of all resources by **optimising resource utilization** and **minimising waste** through practising **cleaner production principles**.
- **Education and awareness** will be promoted at all levels in a manner designed to increase the level of awareness of all aspects of the environment and its relevance, care and management.
- We are committed to comply with applicable **environmental laws and regulations** at all times.
- The state of the environment will be continually assessed and environmental management strategies, systems and objectives will be **periodically reviewed and upgraded** to achieve **continual improvements**.

#### QUALITY AND FOOD SAFETY POLICY

- We are committed to total assurance of **quality and food safety** of the tea we produce. Our goal is to become the **market leader** in the production of **finest quality teas**.
- To this end, we shall ensure that **Good Agricultural and Manufacturing Practices** are adhered to on all our plantations.
- Building on these foundations, we strive to upgrade our production facilities and improve manufacturing processes continually at every stage, to conform to the stringent global food safety standards.
- We believe that the overall **quality** of our product and the satisfaction of **our customers** are greatly dependent on the **quality of life** of our employees and the satisfaction they obtain from working with us. Therefore we will endeavour to assure that our employees' **quality of life** and their skills are continuously improved.
- **Our responsibilities to the society and valued customers** will always be the focal point of our operations and we are committed to consistently improve **communication** at all levels for an effective Food Safety Management System and to comply with the relevant **statutory and regulatory requirements**.

DOING WHAT  
IT TAKES...  
TOGETHER...

When everyone in the value chain works as one... success follows. That's how we spell 'Teamwork'!

# CORPORATE SOCIAL RESPONSIBILITY

**Sustainable Development** - "The ability of humanity to ensure that it meets the needs of the present, without compromising the ability of future generations to meet their own needs" (The Rio Summit 1992)



*A fuelwood block*



*Soil conservation with vetiver*

The Earth is our home and will be humanity's only abode for millennia to come. We must protect it while we can.

Today, the earth is facing an unprecedented crisis. The very face of the Earth is being changed and its fate is hanging in the balance as humans have consumed its resources at a blistering pace without thinking of the environmental consequences or what legacy is left for future generations.

We must join hands to reverse these trends, so that the Earth can recover at least partially. In other words, we must go 'green' to the fullest possible extent in all our activities.

The International Water Management Institute (IWMI) and many other organisations have cautioned that Sri Lanka will be affected by a severe shortage of water by 2015, if adequate steps are not taken to conserve water sources and manage water utilisation more effectively. Already many areas experience water shortages even during short dry spells and this phenomenon is likely to spread across the country.

We at TTE PLC are fully aware and conscious about the catastrophe 'waiting to happen'. In the wider scope of our CSR regime, making a difference and transforming the quality of life of our people, and the environment in areas we operate, has commanded deep commitment at TTE PLC over the years.

CSR programmes are now an integral part of our business strategy with each estate implementing many need-based initiatives annually to meet specific requirements to improve the quality of life of our community and the environment.

### **Our People... Our Future**

We are proud of our team of over 11,000 who continue to make tangible contributions towards the development of all activities of the Company culminating with the achievement of the National Business Excellence Award for Agriculture and Plantations Sector, during the year under review.

Nurturing, developing and retaining this much-valued resource really begin with the Company's established culture of 'Treating people at all levels with dignity and respect'. This culture provides employees at all levels with an enabling environment with opportunities to learn, be creative, innovative, develop themselves and unleash their full potential. 'Facilitative and situational leadership' and 'empowerment' are key strategies we have pursued successfully over the years and these are now strongly embedded in TTE PLC's culture. Recognition and rewards for exceptional performance and contributions will continue to be an integral practice which reinforces this culture.

### **Training and Development**

With the firm objective of continually enhancing knowledge, skills and competencies, training and development of employees at all levels continued during the year under review with many internal and external programmes. These programmes have been need-based and conducted by professionals in respective fields from reputed Institutions such as National Institute of Plantation Management (NIPM), Tea Research Institute (TRI), Institute of Chartered Accountants of Sri Lanka (ICASL), Employers' Federation of Ceylon (EFC), National Institute of Occupational Safety and Health (NIOSH), Praguna Management Consultants and McQuire Rens. Many executives were also sent for overseas training programmes on relevant subjects.

A team of experts from the National Institute of Occupational Health and Safety headed by its Director General himself conducted two separate workshops for all plantation executives, medical assistants and factory executives/officers of high and low grown estates. In addition, two-day programmes on the same subject were conducted by Red Cross for estate teams of Wattegodda, Holyrood, Bearwell, Logie, Radella and Calsay Estates.



Two separate workshops were conducted on the new Performance Management Systems (PMS) by Mr. Sunil Dissanayake, Head of HR, Hayleys Group for plantation executives on high and low grown estates. The new PMS is based on the Balanced Score Card system (BSC) which encompasses four strategic perspectives which are critical for business enterprises. BSC retains traditional financial measures. But these financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value. Therefore, organisations need measures that include both outcome measures and performance drivers of those outcomes. The BSC suggests that an organisation is viewed from four perspectives, i.e., learning and growth, business process, customer and financial and to set goals, develop metrics, collect data and analyse them to relate to each of these perspectives. BSC provides a comprehensive framework that translates company strategic objectives into a coherent set of performance measures and therefore is a tool for performance improvement.



*Training programmes in progress.*

### **Social Welfare, Housing, Educational, Healthcare and Child Development Activities**

Our objective is to continuously improve the quality of family, social and work-life of all employees and communities through the implementation of integrated and sustainable development programmes and initiatives. Company continued with its social welfare, housing, educational, healthcare and child development activities, which included many health camps on several estates.

Thousands from Wattegoda, Somerset, Logie and Holyrood Estates attended the eye clinic conducted by Lion's Club of Colombo on Wattegoda Estate, where many received free eye testing and medical advice/

care. Eye clinics were also conducted on Clarendon and Moragalla Estates. In addition, Company also promotes sports activities, cultural and religious programmes, annual get-togethers and trips for staff, workers, children, etc. A Volleyball Tournament was also conducted among estates in upcountry and Holyrood estate emerged champions and was awarded the Championship Trophy.

The investment made towards such social welfare, educational, healthcare, housing maintenance and child development activities during the year was Rs. 92.8 million.



*Eye clinic in progress on Wattegoda Estate.*



*Child development activities.*

New infrastructure development programmes which are need-based continued during the year and the following new constructions were undertaken:

Development Activity	Total Units
New CDCs	5
New IT/Community/Social Development Centres	2
New Worker Rest Rooms	3
New Sanitation Units	448
Re-roofing	468
Upgrading Staff Quarters	18

Investment made by the Company for infrastructural development work was in the region of Rs. 42.4 million.

We continue to receive substantial assistance from MJF Charitable Foundation towards many Social and Welfare initiatives such as new CDCs, Scholarships and English Education for school children, etc. Construction of a new primary school building for the Holyrood Government School commenced this year.

We also continue to receive assistance from PDP and T-Field Development Federation, to undertake many valuable social welfare projects on our estates. Other organisations that have undertaken useful programmes on our estates are Care International and NWC.

We are indeed grateful to those external agencies for the initiatives undertaken on our estates and for their continuous support to uplift the Quality of Life of the estate community, which has been greatly valued and appreciated by the estate management and the beneficiaries as well.

All these programmes are spearheaded by respective Estate Managers who thus demonstrate their commitment towards consistently uplifting the Quality of Life of their employees and the community.

### **High Educational Standards continue on Estates**

Initiatives and programmes to facilitate higher education among children of estate workers and harness their potential continue to yield encouraging results. We are proud to announce that during the year, three children from the estate community gained entry to universities.

Name	Estate	University	Faculty
Ms. W V Udeshika Piumi	Handford	Kelaniya	Arts
Ms. S Subashini	Bearwell	Eastern	Arts
Ms. N Nithya	Great Western	Peradeniya	Arts

We commend and congratulate these youth for their commitment and success and also for being role models for estate youth. We wish them continued success in their future studies and endeavours.

### **Protecting Our Environment...**

Our Environmental Policy demonstrates the commitment of TTE PLC in partnership with estates and local communities, to conserve and manage the environment and ensure its long-term sustainability for the benefit and well-being of present and future generations on our estates and in our neighbourhood.

Our objective is to identify and implement scientific and integrated environmental management programmes annually on each estate, not only to mitigate any impacts of our operational activities, but also to conserve and develop the environment, biodiversity and ecosystems on estates, in a sustained manner.

We have inherited tea fields with relatively steep terrain and therefore minimising soil erosion and improving soil fertility receive top priority with each estate implementing many Good Agricultural Practices (GAPs) such as contour drainage systems, planting of green manure, shade belts, establishment of Vetiver grass hedges and stone terraces. The concept of Sloping Agricultural Land Technology (SALT) using leguminous plant species is being introduced in all tea replanting blocks for soil conservation and soil enrichment. Thatching, mulching, chopping prunings and composting are other practices implemented to develop soils, particularly in all VP fields and new replantings. Required soil pH levels are maintained by regular application of dolomitic limestone.

Through an accelerated replanting programme, unproductive old seedling tea is systematically replaced with high yielding VP Cultivars with a view to increasing land productivity (YPH) consistently.

The Company is committed to the protection and sustenance of all water sources available on our lands to ensure uninterrupted and adequate supplies of wholesome water to the estate community, factories, nurseries and in some instances to neighbouring villages and towns as well. Banks of waterways such as rivers, streams and reservoirs are well protected with bamboo, vetiver and other soil conserving plants. Some estates have also created new reservoirs with marsh, with a view of conserving water, encouraging wildlife and improving the ecosystems and biodiversity.

We also have programmes to establish various species of trees such as Grevillea Robusta, Caliandra, Erythrina, Gliricidia, Albizzia, Crotalaria etc. to enrich soil fertility and biodiversity.

The use of pesticides in agricultural operations had been a growing concern globally among consumers of agricultural products, regulators and communities living around such land areas. The strategy of TTE PLC for many years has been to control the minor pest attacks on our estates through Integrated Pest Management (IPM) programmes where management of such attacks are through natural biological measures and we have been extremely successful in implementing this strategy.

We are also adopting integrated weed management practices, thereby annually reducing the usage of herbicides considerably. We have already initiated many proactive measures by completely suspending the usage of 2.4D and MCPA for over 3 years and many estates suspending the usage of Paraquat.

### **Energy Management and Conservation Initiatives**

We continue to pursue energy conservation initiatives. Having pioneered the conversion of all factories from fossil fuel to renewable fuel firing, Company now reaps both economic and environmental benefits and the estimated saving of diesel fuel is in the region of 1.5 million litres per annum.

To support the drive towards the usage of fuelwood, Company has accelerated the planting of fuelwood on all estates. This initiative which is an integral component of our energy and environment conservation and cost management strategy, addresses a critical issue in terms of reducing the dependency on fossil fuels, thus contributing positively to alleviate the country's escalating energy issues. During the year under review, we have also installed energy efficient trough fans in all factories as another energy conservation measure.

The development of hydro power potential on our estates also was another initiative to reduce the dependence on the national grid for our energy requirements. The three Plants now in operation generated during the year 6.9 million units of electricity.

THERE'S AN  
INTRINSIC 'MIX'  
OF FACTORS  
THAT COME  
TOGETHER... TO  
MAKE A QUALITY  
TALAWAKELLE TEA...

We blend these factors to work yet again, to ensure our teas are top quality...for yet another year in succession.

# ALIGNING WITH GLOBAL MANAGEMENT SYSTEMS



## **Our Commitment and Initiatives Towards Food Safety:**

Since its inception in 1992, Talawakelle Tea Estates PLC (TTE PLC) has recognised Global trends and requirements of consumer countries and has introduced a 'Quality Culture' throughout the Company with the objective of achieving and sustaining market leadership position in the Industry.

It also pioneered the 'Food Safety' concept with Great Western becoming the first tea factory in Sri Lanka to obtain HACCP certification in 2001. Since then we have implemented ambitious factory development programmes introducing these concepts in all processing centres. As a consequence, Kiruwanaganga became the first food factory in Sri Lanka to obtain the prestigious ISO 22000 International Food Safety Management Systems certification in January, 2006. Thereafter, Mattakelle, Holyrood, Radella and Handford factories achieved HACCP certification whilst Dessford, Great Western and Deniyaya obtained ISO 22000 FSMS certification. Dessford also achieved the TASL - SGS, the product certification awarded by SGS.

During the year under review, Mattakelle upgraded its systems to achieve ISO 22000 certification.

Through these systems and achievements, we will continue to develop and enhance product quality, food safety, quality of worklife of all our employees and more importantly, buyer acceptance and satisfaction.

The systems established also comply with the Food Law Regulation No. 852/2004 of the EU which requires all food producers and exporters to implement a permanent Food Safety Management System (FSMS), based on HACCP principles which have been developed by the joint FAO/WHO Codex Alimentarius Commission.

Our standards also strictly comply with Japanese Food Sanitation Laws which came into effect from 29th May 2006, specifying that all consignments of food and beverages imported to Japan should strictly conform to the Japanese legislation with particular attention to MRLs (Maximum Residue Levels) of agrochemicals and the use of flavour essence of tea.

The Sri Lanka Tea Board, by its circular No. AL/MQS/08 dated 24th April 2008 has issued guidelines and standards pertaining to MRLs, microbiological and heavy metal levels for 'Sri Lanka Origin Teas'. Our Food Safety Management and other relevant systems in all our processing centres are developed and implemented to comply with stipulated requirements.

We have been proactive by considerably reducing the quantity of agrochemicals used on our estates. We are adopting an Integrated Pest Management (IPM) programme which is confined mainly to natural biological measures with the pesticide component in the programme reducing to negligible levels. We are also adopting Integrated Weed Management (IWM) practices thereby reducing the use of herbicides considerably, which aspect is closely monitored. We have, in fact totally suspended the usage of 2-4D and MCPA for well over three years, thus assuring our valued tea buyers of the superior quality of our product.

We have also installed ultra-violet water purifiers with sand and micron filters on all high grown factories.

Our policy is to train and develop the competencies of estate teams on an ongoing basis in order that they will fully understand the concepts and principles which are necessary to effectively implement and sustain the systems on respective estates.

We also record with pride that the standards and certifications referred to in this segment of our report were achieved through the efforts and commitment of our own estate teams without the assistance of any external consultants and we greatly value and commend our Estate Managers and their teams for their initiative.



Good Manufacturing Practices (GMP) & Food Safety Management Systems (FSMS).



Manager Mattakelle Mr. D M H U Mahadivulwewa & Deputy Manager Great Western Mr. C D Ikiriwatte receiving the ISO 22000 Certificate from Director SLSI.





### **Ethical Tea Partnership (ETP) - UK Programme**

Consumers are increasingly concerned that the products they buy are produced in a socially and ethically responsible way. Since 1997, the Ethical Tea Partnership (ETP) - UK has been working with producers and packers to provide this assurance for the tea industry by monitoring working conditions on tea estates around the world.

Ethical Tea Partnership has recently evolved and improved its monitoring programme to ensure it remains rigorous, credible and valid. Whilst in the past, producers were monitored against country law, ILO core conventions and Trade Union Agreements, the current monitoring process centres around a Global Standard, delivering a robust, effective and consistent process no matter where in the world it is applied.

Negotiated and developed in conjunction with a range of industry stakeholders, the ETP standard is locally adjusted to ensure that appropriate focus is placed on issues that are important to workers, producers, buyers and consumers.

ETP aims to ensure that, as a minimum, producers conform to all requirements of the ETP standard which encompasses the Ethical Trading Initiative Base Code, ILO conventions, local laws and collective bargaining agreements.

All our estates continue to be in the ETP Monitoring Programme which demonstrates TTE PLC's commitment towards maintaining high ethical standards, social welfare practices and working conditions in all spheres of operation.

### **Rainfall Alliance and Sustainable Agriculture Network**

Sustainable Agriculture Network (SAN) is a coalition of independent, non-profit, conservation organisations that promote the socio-environmental sustainability of agricultural activities through development projects and the certification of sustainable agriculture. SAN fosters best practices for the agricultural value chain, provides certification services to the producers and agricultural companies in their country and contributes knowledge and experience to the development of Sustainable Agriculture Standards.

Rainforest Alliance (RA) is the Secretariat of the Network and administers its certification systems. The mission of the RA is to protect ecosystems and the people and wildlife that depend on them by transforming land use practices, business practices and consumer behaviour. RA certification standards follow ten universal principles of sustainable agriculture, which are built on the three pillars of sustainability - environment, economy and social justice. The objective of the standard is to mitigate environmental and social risks caused



by agricultural activities through a process that motivates continual improvement, as well as provides a measure of each farm's social and environmental performance and best management practices.

TTE PLC has recognised the value of the RA standard which is consistent with the Company's Vision and Policies and has commenced implementation of the requirements of the standard. Company has in fact already been implementing most of the requirements in accordance with Company strategies and policies and has already fulfilled many aspects contained in the RA standard.



*A reservoir with marshy land recently created on Great Western estate for water conservation and protection of wildlife.*

*Protected wildlife on Moragalla Estate*

### **Talawakelle Wins National Business Excellence Award**

In recognition of consistent overall performance, implementation of best practices and significant achievements, TTE PLC was adjudged the overall winner - Agriculture and Plantations Sector at the National Business Excellence Awards conducted by the National Chamber of Commerce in Sri Lanka.

This award reinforces the commitment and achievements of the TTE PLC team and we commend all executives, staff and workers for their commitment and contributions made.



*The Director/CEO of TTE PLC receiving the National Business Excellence Award.*



*National Business Excellence Award and Certificate.*

OUR FUTURE  
IS SHAPED BY  
WHAT WE DO  
TODAY...

We invest in the future... to ensure sustainable development... to remain competitive in terms of product quality and costs... to ensure longevity of our business.

# RISK MANAGEMENT

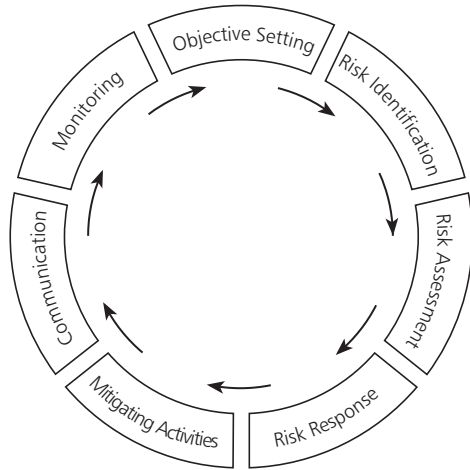
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In our endeavour towards enhancing the wealth of the shareholders, we are exposed to a multitude of risks which are of different forms and magnitudes. It is our willingness to take an entrepreneurial risk that enables us to exploit opportunities as they arise. We therefore calculatedly take risks, as long as they are reasonable and can be managed and controlled, and bear such risks if they are expected to create value added for the Company. However, risk arising in all our business activities cannot be completely eliminated.

We have a comprehensive risk management system in place, which enables us to recognise and analyse risks early on and to take the appropriate action. This system is implemented as an integral part of our business processes across the entire TTE PLC's business. Further, greater emphasis is placed on managing risk with prudence and discipline at strategic level with the participation of the Board of Directors. The Board is responsible for reviewing the overall risk profile of the Company and set goals annually. The overall responsibility for the management of risk lies with the Management Committee and the Senior Management team. The front line managers are assigned with the primary responsibility of taking action. The major risks are reported to the Board with an action plan which includes the identity of the key personnel charged with the responsibility of implementing it.

Our risk management process comprises multiple control mechanisms and constitutes an important element of the corporate decision-making processes. These mechanisms include recording internal processes and business risks, management and controlling systems and planning processes that are uniform throughout TTE PLC. To ensure the effectiveness of our risk management efforts, as well as the transparency and aggregation of risks within the frame-work of reporting, we have opted for an integrated approach to managing corporate risks, to be uniformly implemented throughout our estates with a direct reporting line to the Chief Executive Officer.

Our risk management process is briefly explained below:

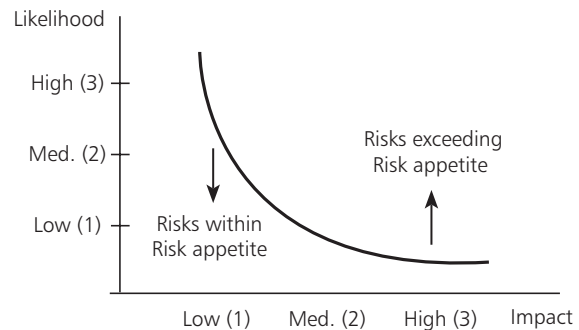


**Objective Setting** - The Board sets goals annually after reviewing the overall risk profile of the Company. TTE PLC's tolerance of risks identified will ultimately determine the agreed goal.

**Risk Identification** - Our integrated approach involved all levels of managers in risk identification process. Regular monthly meetings are held to discuss possible risks that may have negative impact on our targets. Internal and external audit reports also provide insights to possible risks.

**Risk Assessment** - Risk measures are based on the likelihood and impact. Any risk exceeding risk tolerance level will require management response.

Likelihood				
High (3)	3	6	9	
Med. (2)	2	4	6	
Low (1)	1	2	3	
	Low (1)	Med. (2)	High (3)	Impact



Likelihood X Impact = Risk

A higher risk requires more urgent management response.

**Risk Response and Mitigating Activities** - Depending on the significance of the risk to the business, decisions are taken to appropriately manage risk by accepting, reducing, sharing or avoiding it. Such decisions are influenced by the TTE PLC's risk appetite. Chief Executive Officer with the management team initiates mitigatory actions that are needed to manage risks.

The Company has entered into Insurance Agreements where possible, to protect itself against financial losses arising from uncertainties and risks. These agreements are frequently re-examined and adjusted as necessary.

**Communication** - Documentation and communication play a key role in monitoring risks. Monthly and quarterly reports with key economic and performance indicators and relevant external reports are presented to the Management Committee and to the Board to alert possible risks. Internal and external audit reports on level of compliance with risk mitigating actions are tabled at the meetings of the Management Committee and the Audit Committee which are then reviewed and acted upon. Strict compliance of internal control procedures ensure effective and efficient functioning of operations within the Company.

**Monitoring** - The ultimate responsibility for monitoring risk management lies with the Board of Directors. This includes monitoring the efficiency and effectiveness of internal control.

The key risks the Company is exposed to, their effects and the mitigating systems practiced are elaborated below:

Risk	Concern	Effect	Risk Mitigatory Strategies
Global Tea Prices	Ability to maintain a stable price	Fluctuating prices affect bottom line	The cyclical pattern of price is mitigated by focusing on producing 'quality teas'. Availability of a range of high and low grown teas help in reducing the impact of price fluctuations.
Product Quality	Inability to maintain consistency in quality	Buyers curtailing/ ceasing purchases	Quality assurance measures are implemented at every stage of manufacture and cultivation. Implementation of quality assurance systems, food hygiene standards and Certification of factories under HACCP and ISO ensure quality of the product.  Also, regular dialogues with buyers and brokers and corrective actions on broker reports are measures taken to adhere to quality policy.

Risk	Concern	Effect	Risk Mitigatory Strategies
Climatic Changes	Tea is a rain-fed crop and productivity and seasonal quality depends on soil and climatic conditions	Drop in crop, serious disease conditions, plant casualties, loss of top soil and decline in crop productivity	Adversity is reduced due to the geographical distribution of the estates in the high and low grown elevations. Planting selected new cultivars, good agricultural practices, sustainable management of the biodiversity and ecosystems including water conservation measures. Participation of the small-holder and proactive planning.
Human Resource	Highly unionised large workforce  Retaining competent management and supervisory staff	As the industry is highly labour-intensive, low productivity, work stoppages, strikes will result in a major impact on the Company/ Industry  Disruption to operations and performance	The Collective Agreement entered into with the Trade Unions in the Company's capacity as a member of the Employers' Federation ensures industrial peace and that wages are applied industry-wide and not ad-hoc.  Human resource management is given priority. Performance Management Systems, training and development, motivation and empowerment are practiced to reduce the impact.
Interest Rate	Needs to minimise the adverse effects of the fluctuating interest rates	Impacts profitability and cash flows	The Company manages and mitigates interest rate risk by utilising concessionary funding from available sources. Also an appropriate mix of floating and fixed rate interest debt capital is employed. This reduces the impact of upward movement of interest rates while allowing for benefit should interest rates fall.
Reputation	Compliance of legal and statutory requirements	Non-compliance may lead to loss of reputation, fines, surcharges and even litigation	Reputation is considered as the one most valued intangible asset of the Company. Therefore, the Company needs to obtain expert legal advice and to include wherever possible risk mitigatory clauses in its Agreements for new ventures and investments. The Company's systems and procedures ensure that due consideration to health and safety and environmental issues and the best practices are followed in these areas.

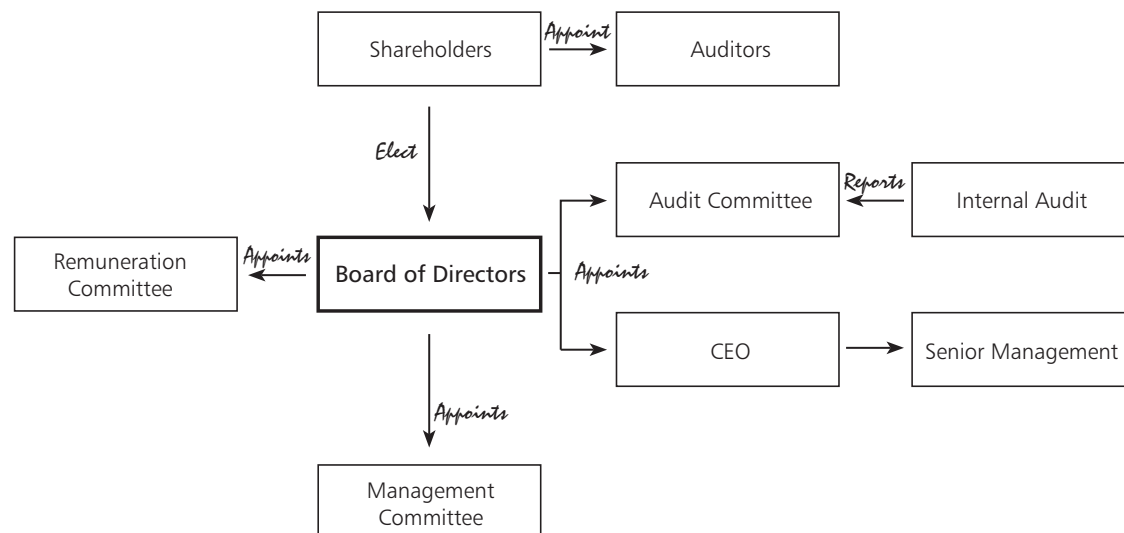
Risk	Concern	Effect	Risk Mitigatory Strategies
Investments	Investments are necessary for the sustainability of the business	Impact on future profitability and project failing midway	Investments are first subjected to a rigorous evaluation process which requires a minimum expected return. Then, Board approval is sought prior to embarking on the investment. Close monitoring of the progress is made to ensure budgets and forecasts can be met and project deliverables are met.
Competition	Local Tea Industry faces intense Global competition mainly flowing from low cost producers and substitute beverages.	Eroding margins and loss of markets	Company's focus on quality and productivity are measures in mitigating risk of competition from low cost producers.  Broadening product range (such as Green Tea).
Liquidity	Availability of sufficient funds is crucial as the industry is cyclical with long gestation periods for returns	Inadequacy of funds would affect the going concern of the Company, costly funding and postponement of investments	Borrowings are suitably structured to ensure that their maturity profile is not beyond the Company's means to repay or re-finance, Cash flow management and Budgetary control system.
Information	Accurate and timely information from information systems is vital for decision making and control	Disruption caused by failure of systems could result in financial losses	Internal controls and a sound backup system are employed. Further, the Company has entered into maintenance contracts with a well-established company and uses licensed software.
Operational Risk	A sound internal control system is a key factor in safeguarding tangible and intangible assets	Human error, frauds, accidents, natural disasters may cause financial losses	Internal control systems, compliance audits, standardisation of procedures, employment of suitable and qualified personnel and insurance covers help to mitigate operational risks.
Contractual Risk	Entering into contracts contravening law  Contracts which are not commercially sound	Loss of reputation, litigation and financial loss	Agreements are subjected to professional legal review.  All major contracts are reviewed and approved by the Board.

# ENTERPRISE GOVERNANCE REPORT

Talawakelle Tea Estates PLC (TTE PLC) believes that enhancing Corporate Governance supports the creation of long-term sustainable stakeholder value. Thus, we have created systems which promote corporate fairness, transparency, and accountability, to ensure TTE PLC as a business that can meet the needs of all its stakeholders now and into the future. Good Governance is...a core value at TTE PLC.

TTE PLC is a subsidiary of Hayleys Plantation Services (Pvt) Limited, which is an associate Company of Hayleys PLC, Aitken Spence PLC and MJF Holdings (Pvt) Limited. The businesses of the Company are stated in the Annual Report of the Board of Directors on page 73.

We strive to achieve a balance between accountability and assurance (conformance) on one hand and value creation and resource utilisation (performance) on the other. Thus, we believe our Corporate Governance complement our business processes. Our Governance Frame-work is depicted in the following diagram.





We set out below the Company's governance practices in the background of the Code of Best Practice published by the Institute of Chartered Accountants of Sri Lanka, and the Rules set out in Section 7.10 of the Colombo Stock Exchange's New Listing Rules.

## A. Directors

### 1. The Board of Directors

#### • Composition and Attendance at Board Meetings

The Board of TTE PLC as at 31st December 2009 comprised ten Directors; The Chairman (Non-Executive), two Executive Directors, including the Chief Executive Officer and seven other Non-Executive Directors, of which three are independent. These Directors are named below and their profiles available on pages 68 to 71 of this Report. Details of Directors' shareholding in the Company and directorates in other related companies are given on pages 79 and 118 respectively.

The Board meets quarterly as a practice. Ad hoc meetings are held when necessary. During the year under review the Board met 4 times.

Attendance at these meetings was:

Name of Director	Executive/Non-Executive	Attendance
Mr. A M Pandithage ( <i>Chairman</i> ) (appointed wef 01.07.2009)	Non-Executive	2/2
Mr. N G Wickremeratne (Retired w.e.f. 30.06.2009)	Non-Executive	2/2
Mr. S T Gunatilleke (Chief Executive Officer)	Executive	4/4
Mr. M M M De Silva	Executive	3/4
Mr. Merrill J Fernando	Non-Executive	0/4
Mr. Malik J Fernando	Non-Executive	3/4
Dr. Rohan M Fernando	Non-Executive	4/4
Mr. J M S Brito	Non-Executive	3/4
Dr. U Liyanage	Independent Non-Executive	4/4
Dr. S S S B D G Jayawardena	Independent Non-Executive	4/4
Mr. L N De S Wijeyeratne	Independent Non-Executive	4/4
Miss Minette Perera (Alternate Director to Mr. Merrill J Fernando)	Non-Executive	1/4
Mr. D C Fernando (Alternate Director to Mr. Malik J Fernando)	Non-Executive	0/4

In addition to formal Board Meetings, the Directors maintained a regular communication with one another to discuss relevant business issues.

● *Responsibilities*

The Board is responsible for:

- Enhancing shareholder value
- Formulating, communicating, implementing and monitoring of business policies, strategies, objectives and goals
- Ensuring that the Executive Directors have the skills/knowledge to implement the strategy effectively, with proper succession arrangements in focus
- Ensuring that due attention is given to appropriate accounting policies and practices
- Setting priorities and communicating values and ethical standards for management
- Ensuring that information, control, risk management and audit systems are effective
- Ensuring compliance with ethical, legal, health, environment and safety standards
- Reviewing and approving annual budgets and monitoring performance against the budgets
- Sanctioning major investments and business proposals recommended by the Management Committee
- Appointment of Chief Executive Officer and approving the remuneration of Senior Executives
- Adopting annual and interim accounts and recommending dividend for approval by the shareholders
- Evaluating and monitoring the performance of the Company on a regular basis and initiating remedial action, where necessary

The Board is responsible, ultimately, for the Company's financial performance. It is in control of the Company's affairs and conscious of its obligations to shareholders and other stakeholders.

All Directors have access to Hayleys Group Services (Pvt) Limited, who acts as Company Secretary, for advice on relevant matters. The Company Secretary keeps the Board informed of new laws, regulations and requirements coming into effect which are relevant to them as individual Directors and collectively to the Board.

Each Director brings independent judgement to bear on matters the Board is responsible for, and dedicates the time and effort necessary to carryout his responsibilities.

*2. Chairman and Chief Executive Officer*

The functions of the Chairman and of the Chief Executive Officer are clearly defined and are separated. This ensures balance of power and authority within the Company.

### **3. Chairman's Role**

The Chairman conducts all Board Meetings and ensures:

- The effective discharge of the Board's functions,
- The effective participation of the Executive and Non-Executive Directors and
- A balance of power is maintained.

The Chairman maintains close contact with all Directors, and holds informal meetings with Non-Executive Directors where necessary.

### **4. Board Balance**

The composition of the Executive and Non-Executive Directors (the latter are over one-third of the total number of Directors) satisfies the requirements laid down in the Listing Rules of the Colombo Stock Exchange.

The balance of Executive and Non-Executive Directors on the Board ensures that decision making is transparent and not dominated by any individual or small group.

The Board comprises of five Non-Executive Directors and three Independent Non-Executive Directors in a total of ten. Their profiles reflect their calibre and the weight their views carry in Board deliberations. The Non-Executive Directors do not involve in management and are free from any relationship that can interfere with the affairs of the Company.

### **5. Financial Acumen**

The Board includes three senior Chartered Accountants, who possess the necessary knowledge and competence to offer the Board guidance on matters of finance.

### **6. Supply of Information**

Directors are furnished with monthly reports of performance and are given appropriate documentation in advance of each Board Meeting for individual Directors to study the matters under discussion. This enables Board Members to actively participate at Board meetings. The Chairman ensures that all Directors are adequately briefed on issues arising at meetings.

### **7. Appointment and Re-election of Directors**

The Board as a whole decides on the appointment of Directors in accordance with the Articles of Association of the Company. New Directors are proposed for appointment after consultation between the Chairman and the Directors.

The Company's Articles of Association require any Director appointed by the Board to hold office until the next Annual General Meeting, at which he seeks re-appointment by the shareholders.

The Articles require one-third of the Directors in office to retire at each Annual General Meeting. The Directors to retire in each year are those who have been longest in office since their appointment or re-appointment. Retiring Directors are eligible for re-election by the shareholders.

The Chief Executive Officer does not retire by rotation.

## **B. Directors' Remuneration**

### ***Remuneration Procedure***

The composition of the Remuneration Committee satisfies the requirements laid down in the Listing Rules of the Colombo Stock Exchange. The Remuneration Committee consists of:

- Mr. J M S Brito (*Chairman*) - *Non-Executive Director*
- Dr. U Liyanage - *Independent Non-Executive Director*
- Mr. L N De S Wijeyeratne - *Independent Non-Executive Director*

This Committee is chaired by a Non-Executive Director, Mr. J M S Brito. The Remuneration Committee recommends on the remuneration of the Chief Executive Officer and Executive Directors and sets guidelines for the remuneration of the management staff within the Company.

### ***Disclosure of Remuneration***

The Remuneration Committee Report appears on page 72. The total of Directors' Remuneration is reported in Note 23 to the Financial Statements.

## **C. Relations with Shareholders**

The Notice of Meeting is included in the Annual Report. The Notice contains the Agenda for the AGM as well as instructions on voting, including appointment of proxies. A Form of Proxy is enclosed with the Annual Report. The period of notice prescribed by the Companies Act No. 7 of 2007 has been met.

### ***1. Constructive use of the Annual General Meeting***

The active participation of shareholders at the Annual General Meeting is encouraged. The Board believes the AGM is a means of continuing effective dialogue with shareholders.

The Board offers clarifications and responds to concerns shareholders have over the content of the Annual Report as well as other matters which are important to them. The AGM is also used to adopt the Financial Statements for the year.

## **2. Major Transactions**

There have been no transactions during the year under review which fall within the definition of 'Major Transactions' in terms of the Companies Act.

## **3. Communication with Stakeholders**

Stakeholders have access to Quarterly Financial Statements and are provided with Annual Report, which the Group considers as its principal communication with them. These reports are also made available on the TTE PLC website and are provided to the Colombo Stock Exchange. The Company maintains a website ([www.talawakelleteas.com](http://www.talawakelleteas.com)), which offers any interested person information on the Company and its activities.

Shareholders are free to communicate with the Company whenever it is considered necessary. Such communication can be with either the Chairman or the Chief Executive Officer or with the Company Secretary, depending on the matter to be addressed.

## **4. Price Sensitive Information**

Due care is exercised with respect to share price sensitive information.

## **D. Accountability and Audit**

### **1. Financial Reporting**

The Board places great emphasis on complete disclosure of financial and non-financial information within the bounds of commercial reality, and on the early adoption of sound reporting practices.

Financial information is disclosed in accordance with the Sri Lanka Accounting Standards. Revisions to existing accounting standards and adoption of new standards are carefully monitored.

The Annual Report includes descriptive, non-financial content through which an attempt is made to provide stakeholders with information to assist them make more informed decisions.

The Statement of Directors' Responsibilities in relation to the Financial Statements is set out on page 81.

### **Management Report**

A comprehensive coverage of key initiatives undertaken during the year, external impacts, sector performance, achievements and future outlook, awards won and certifications received are available in the Chairman's Statement (page 2 to page 5) and Management Report (page 7 to page 33) of this Report.

The Financial Review (page 24 to page 33) in this Report provides an analysis of the Group's performance during the financial year.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks. This process has been in place throughout the year under review. The potential risks, both internal as well as external, faced by the Group and actions instituted for mitigating the same are reported in the Risk Management section (page 49 to page 53) of this Report.

### ***Going Concern***

The Directors, after making necessary inquiries and reviews including reviews of the TTE PLC's budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

### ***2. Internal Control***

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. The system is designed to safeguard assets against unauthorised use or disposal and to ensure that proper records are maintained and reliable information is generated. It includes all controls, including financial, operational and compliance controls and risk management. Further it is the Board's responsibility to examine any matters relating to the Financial Reporting systems of the Company, and its external and internal audits. Its duties include the detailed review of Financial Statements, internal control procedures, accounting policies and compliance with applicable accounting standards. It reviews the adequacy of systems in place for compliance with relevant legal, regulatory and ethical requirements and Company policies. However, it is appropriate to state that any system can ensure only reasonable, and not absolute, assurance that errors and irregularities are prevented or detected within a reasonable time frame.

The Company has an internal audit function and internal audit reports are reviewed by the Audit Committee.

The Board has reviewed the effectiveness of the system of financial control for the period up to the date of signing the accounts.

### ***Audit Committee***

An Audit Committee was formed during the year under review. The Committee consists entirely of Non-Executive Directors and is chaired by Mr. L N De S Wijeyeratne. The Chief Financial Officer, serves as its Secretary. The Chairman, and the Chief Executive Officer are invited to attend meetings, and the other Executive Director(s) attend meetings as required. The input of the statutory auditors is obtained where necessary. The Audit Committee helps the Group achieve a balance between conformance and performance.

Audit Committee consists of:

Mr. L N De S Wijeyeratne (*Chairman*) - *Independent Non-Executive Director*

Dr. S S S B D G Jayawardena - *Independent Non-Executive Director*

Mr. Malik J Fernando - *Non-Executive Director*

During the year under review, the Committee met on three occasions, the attendance at these meetings is reported in 'Audit Committee Report' on page 84 of this Report.

The Audit Committee's role is defined as per the Audit Charter. Accordingly, the Committee is empowered to examine any matters relating to the Financial Reporting systems of the Group, and its external and internal audits and risk management processes. Its duties include the detailed review of Financial Statements, internal control procedures, accounting policies and risk management relating to liquidity, internal control systems and procedures, adequacy of insurance cover of assets and compliance with applicable accounting standards.

It reviews the adequacy of systems in place for compliance with relevant legal, regulatory and ethical requirements and Company policies.

The Audit Committee recommends the appointment and fees of the external auditors, having considered their independence and performance.

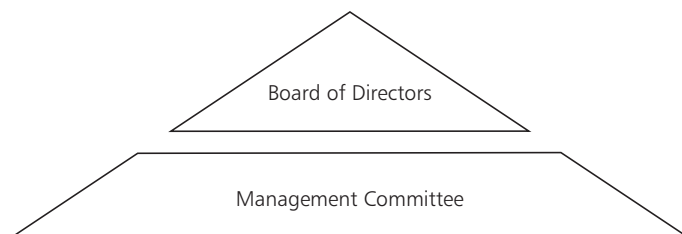
The Audit Committee Report appears in page 84 of this Report.

## **E. Other**

### **1. Organisation**

The Board has put in place an organisational structure with formally defined lines of responsibility, reporting and appropriate limits of authority. There are established procedures for planning and investment, risk management and for information and reporting systems to monitor the Company's businesses.

### **2. Management Committee**



TTE PLC has a two-tier governance structure, with a Management Committee, just below the Board overseeing the corporate management process.

The Management Committee consists of two Non-Executive Directors, two Executive Directors including the Chief Executive Officer and Senior Management.

The Management Committee meets every month.

The Management Committee formulates strategy, seeks Board approval for this strategy, and implements it within the policy framework established by the Board and the ethical framework and business practices inherent to the Company, which demand best practice in dealing with employees, customers, suppliers, and the community.

The Management Committee reviews the annual budget, monthly performance against budget, and capital expenditure proposals prior to recommending to the Board.

### **3. Corporate Management**

The Board has delegated the primary authority to implement policy and achieve strategic objectives of the Company, to the Chief Executive Officer (CEO).

The CEO exercises this authority within the policy framework established by the Board and the ethical framework and business practice inherent to the Company, which demand best practices, are followed in dealing with employees, customers, suppliers and the community at large.

The CEO is entrusted with optimising use of the Company's resources within the framework of the Company's corporate and financial strategies and the annual corporate plan and budget. The Company employs a continuous planning process with the active involvement of all executives. A system of regular reviewing operations is in place to ensure close monitoring of performance and prompt corrective actions.

### **4. Monthly Review Committee**

The Company's performance is also subject to review by Hayleys PLC, at a meeting chaired by an Executive Director with a cross-section of other companies in the Group. At this review, performance for the current month and year to date, and future projections of the Company are assessed. This facilitates consultation and co-ordination on common business issues within the Group.

Also, participation in the Group's 'Clusters' facilitates discussion and sharing of experience/expertise on matters of common interest across the Group.



**IT Governance**

We continue to give attention to bringing the TTE PLC’s IT systems in line with its strategies and objectives. Dedicated staff are deployed Group-wide to support this.

**IT Value and Alignment**

Investments in IT projects and systems are made after consideration is given to their suitability for the related projects. Further aspects such as cost savings, improved customer satisfaction, timely information and the balance between cost of investment and present and future scale of operations are also taken into account when these decisions are taken.

**IT Risk Management**

Risks associated with Information Technology are assessed in the process of Risk Management. Use of licensed software (with Microsoft Corporation), closer monitoring of internet usage (for compliance with the Group’s IT Usage Policy) and mail server operations and the use of antivirus and firewall software, are some of the safeguards in place.

Levels of compliance with the CSE’s New Listing Rules- Section 7.10, Rules on Corporate Governance are given in the following table.

Rule No.	Subject	Applicable requirement	Compliance Status	Details
7.10 (a)	Non-Executive Directors	At least one-third of the total number of Directors should be Non-Executive Directors	Compliant	Eight out of ten Directors are Non-Executive Directors
7.10.2(a)	Independent Directors	Two or one-third of Non-Executive Directors, whichever is higher, should be Independent	Compliant	Three out of eight Non-Executive Directors are Independent
7.10.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format	Compliant	Non-Executive Directors have submitted the declaration
7.10.3 (a)	Disclosure relating to Directors	The Board shall annually make a determination as to the independence or otherwise of the Non-Executive Directors and names of Independent Directors should be disclosed in the Annual Report	Compliant	Please refer ‘Annual Report of the Board of Directors’ on page 75

Rule No.	Subject	Applicable requirement	Compliance Status	Details
7.10.3 (b)	Disclosure relating to Directors	A brief résumé of each Director should be included in the Annual Report including the areas of expertise	Compliant	Given on page 68 to 71.
7.10.3 (d)	Disclosure relating to Directors	Forthwith provide a brief résumé of new Directors appointed to the Board with details specified in 7.10.3 (a), (b) and (c) to the Exchange	Compliant	A brief 'resume' provided to the Exchange
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Please refer page 58 of this Report
7.10.5 (a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors a majority of whom will be independent	Compliant	The Committee consists of three Non-Executive Directors of which two are Independent
7.10.5 (b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors	Compliant	Please refer 'Remuneration Procedure' on page 58
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out;		
		(a) Names of Directors comprising the Remuneration Committee	Compliant	Please refer page 58 of this Report
		(b) Statement of Remuneration Policy	Compliant	Please refer page 72
		(c) Aggregated remuneration paid to Executive & Non-Executive Directors	Compliant	Please refer page 114

Rule No.	Subject	Applicable requirement	Compliance Status	Details
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Names of the members of the Audit Committee are stated on page 61
7.10.6 (a)	Composition of Audit Committee	Shall comprise Non-Executive Directors a majority of whom will be independent	Compliant	Audit Committee consists of three Non-Executive Directors of which two are Independent.
		A Non-Executive Director shall be appointed as the Chairman of the Committee	Compliant	Chairman of the Audit Committee is an Independent Non-Executive Director
		Chief Executive Officer and Chief Financial Officer should attend Audit Committee Meetings	Compliant	The Chief Executive Officer and Chief Financial Officer attend meetings by invitation
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	Chairman of the Audit Committee is a Chartered Accountant

Rule No.	Subject	Applicable requirement	Compliance Status	Details
7.10.6 (b)	Audit Committee Functions	<p>Functions shall include:</p> <p>(a) Overseeing the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards</p> <p>(b) Overseeing the compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements</p> <p>(c) Overseeing the processes to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards</p> <p>(d) Assessment of the independence and performance of the external auditors</p> <p>(e) Make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors, and approve the remuneration and terms of engagement of the external auditors</p>	Compliant	The terms of reference of the Audit Committee have been agreed by the Board

<b>Rule No.</b>	<b>Subject</b>	<b>Applicable requirement</b>	<b>Compliance Status</b>	<b>Details</b>
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	(a) Names of Directors comprising the Audit Committee	Compliant	Please refer page 61
		(b) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	Please refer Audit Committee Report on page 84
		(c) The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance with their functions	Compliant	Please refer Audit Committee Report on page 84

## Board of Directors

### **Mr. A M Pandithage - Chairman \*\***

Mr. A M Pandithage was appointed to the Board and as Chairman of Talawakelle Tea Estates PLC on 1st July 2009.

He is a Fellow of the Chartered Institute of Logistics & Transport and a Director of Sri Lanka Port Management & Consultancy Services Limited. He was the former Chairman of the Ceylon Association of Ships' Agents. Former Director of both the Sri Lanka Ports Authority and Jaya Container Terminals Limited. He serves as a member of the Presidential Committee on Maritime Matters.

### **Mr. N G Wickremeratne \*\***

Mr. N G Wickremeratne retired from the Board and as Chairman of Talawakelle Tea Estates PLC with effect from 30th June 2009.

He holds a Bachelor of Science Degree from the University of Ceylon, Peradeniya. He chaired the Sri Lanka Association of Manufacturers and Exporters of Rubber Products. He served as a committee member of the Ceylon Chamber of Commerce and has been its representative on the National Labour Advisory Council. He is a Past President of the Sri Lanka-France Business Council.

### **Mr. S T Gunatilleke - Chief Executive Officer \***

Mr. S T Gunatilleke joined Talawakelle Tea Estates PLC in 1992 and was appointed as the Chief-Executive Officer in 2001. He was appointed to the Board of Talawakelle Tea Estates PLC in 2004.

He serves on the Board of Tea Smallholders Development Authority and also as a Member of the Law and Order Sub-committee of the Ceylon Chamber of Commerce representing The Planters' Association of Sri Lanka.

A senior planter who counts forty years' experience in plantation management, has held the position of Regional Director of Sri Lanka State Plantation Corporation and served as a consultant to the United Nations Industrial Development Organisation (UNIDO) on tea plantation management.

**Mr. Merrill J Fernando \*\***

Mr. Merrill J Fernando was appointed to the Board of Talawakelle Tea Estates PLC in 1998.

One of the first Sri Lankan tea tasters in the then British dominated trade, Mr. Merrill J Fernando is the Chairman of MJF Holdings Limited. He founded the 'Dilmah' tea brand that reintroduced pre-packaged Pure Ceylon Tea to Western markets. 'Dilmah', launched in Australia is now sold in over 90 countries around the world and is considered a role model for the value added marketing of a third world commodity.

Mr. Fernando is the founder of the MJF Foundation, a low profile charity that works to create better conditions for plantation workers' underprivileged children, elders and society's victims.

**Mr. Malik J Fernando \*\***

Mr. Malik J Fernando was appointed to the Board of Talawakelle Tea Estates PLC in 1998.

He is the Director Operations of the MJF Group, which comprises several tea growing and tea packing/exporting companies, supplying the 'Dilmah Tea' brand around the world.

Mr. Fernando holds a Bachelor of Science Degree in Management from Babson College, USA.

**Dr. R M Fernando \*\***

Dr. Rohan M Fernando was appointed to the Board of Talawakelle Tea Estates PLC in 2002.

He is a Director of Aitken Spence PLC and heads the Plantations and Business Development Unit.

He is a Fellow of the Chartered Institute of Marketing (CIM), UK. He holds a PhD and an MBA from the University of Colombo, Sri Lanka. With extensive experience in the plantation industry, both in the public and private sectors, he also played a key role in Sri Lanka's Plantations Privatisation Programme.

He was the Past Chairman of the Planters' Association of Ceylon; also a Director of the Rubber Research Institute of Sri Lanka.

He has also been involved with several leading international institutions particularly in marketing and business development. He was awarded the Brand Leadership Award at the Asia Brand Congress 2008, held in Mumbai.

**Mr. J M S Brito \*\***

Mr. J M S Brito was appointed to the Board of Talawakelle Tea Estates PLC in 2003. He is the Deputy Chairman and Managing Director of Aitken Spence PLC. Mr. Brito is the past Chairman of SriLankan Airlines and presently Chairman of DFCC and DFCC Vardhana Bank.

He is a Law Graduate of the University of London, a Fellow of The Institute of Chartered Accountants of England and Wales and obtained a Master's Degree in Business Administration from the City Business School, London. Together with this multi-disciplined education, he has a wealth of knowledge, gained through this twenty-five years of international experience, working with Pricewaterhouse - London, British EverReady PLC, Minmetco Group, World Bank and PERC.

**Mr. M M M De Silva \***

Mr. M M M De Silva was appointed to the Board of Talawakelle Tea Estates PLC in 2006. He is a member of the Group Management Committee of Hayleys PLC and is responsible for the Industrial Solutions Group in the Inland Marketing Sector, the Fibre Sector and Talawakelle Tea Estates PLC.

He holds a Bachelor of Science Degree from the University of Peradeniya, is a Fellow of The Institute of Chartered Accountants of Sri Lanka, and an Associate of the Chartered Institute of Management Accountants, UK. He also holds a Postgraduate Diploma in Business Management from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

**Dr. Uditha Liyanage \*\*\***

Dr. Uditha Liyanage was appointed to the Board of Talawakelle Tea Estates PLC in 2008 as a Non-Executive Director.

He is presently the Director of the Postgraduate Institute of Management (PIM) and the Chairman of its Board of Management. He counts over fifteen years' experience in the industry, having held senior marketing management positions in leading companies in Sri Lanka. He is a Member of the Board of Study of The Institute of Chartered Accountants of Sri Lanka, and a Council Member of the National Institute of Business Management (NIBM). He is also a Member of the Standing Committees on Staff Development and Management Studies of the University Grants Commission and a Member of the Presidential Task Force on National Productivity Improvement. He was the Chairman of the CIM Sri Lanka, and a Member of the International Board of CIM.

Dr. Liyanage has published extensively on Branding and Strategic Marketing in leading journals both here and abroad, and has addressed numerous international conferences.



**Dr. S S S B D G Jayawardena \*\*\***

Dr. S S S B D G Jayawardena was appointed to the Board of Talawakelle Tea Estates PLC in 2008 as a Non-Executive Director.

He is the Chairman of the Tea Research Institute (TRI). He is a Board Member of Sri Lanka State Plantations Corporation (SLSPC) and Tea Small Holdings Development Authority (TSHDA), and also a Member of the Advisory Committee on Tea of the Ministry of Plantation Industries, the National Science Foundation Committee on Research Policy and National Salaries and Cardre Commission.

He held positions as the former Chairman - Coconut Research Institute and National Institute of Plantation Management and a former Director General of Department of Agriculture.

He holds a PhD in Plant Physiology, Plant Breeding and Genetics.

**Mr. L N De S Wijeyeratne \*\*\***

Mr. L N De S Wijeyeratne was appointed to the Board of Talawakelle Tea Estates PLC in 2008 as a Non-Executive Director.

He is a Fellow of The Institute of Chartered Accountants in Sri Lanka and counts over thirty-five years of experience in Finance and General Management both in Sri Lanka and overseas. He was the Group Finance Director of Richard Pieris PLC from January 1997 to June 2008 and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon and Zambia Consolidated Copper Mines Limited. He is presently a Director of several listed and unlisted Companies.

\* *Executive*

\*\* *Non-Executive*

\*\*\* *Independent Non-Executive*

## Remuneration Committee Report

The Remuneration Committee consists of three Non-Executive Directors of whom two are Independent and is chaired by the Non-Executive Director. The Director/Chief Executive Officer assists the Committee by providing relevant information and participating in its analysis and deliberations, except when his own compensation package is reviewed.

The Committee is responsible for determining the compensation of the Director/CEO. In addition, they lay down guidelines and parameters for the compensation structure of all management staff of TTE PLC.

A primary objective of compensation packages is to attract and retain a highly qualified and experienced workforce and reward performance. These compensation packages should provide compensation appropriate for the Company and commensurate with each employee's level of expertise and contribution, bearing in mind the business performance and shareholder returns.

In carrying out its tasks the Committee reviewed data concerning executive pay among comparator companies.

The Committee will meet from time to time and review the Company's compensation structure to assure alignment with strategic priorities and with compensation offered by comparator companies.

Succession plans to which remuneration can be aligned have been defined. Steps have also been taken to align pay more closely with performance, based on Performance Management Systems within the Company.

*(Sgd.)*

**J M S Brito**

*Chairman*

Remuneration Committee

11th February 2010

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors of Talawakelle Tea Estates PLC (TTE PLC) have pleasure in presenting their Report on the affairs of the Company together with the audited Consolidated Financial Statements for the year ended 31st December 2009.

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007, and the Colombo Stock Exchange Listing Rules and are guided by recommended best reporting practices.

## ***Principal Activities***

The principal activity of Talawakelle Tea Estates PLC is the cultivation and manufacture of black tea. Talawakelle Tea Estates PLC is the holding Company of its two subsidiaries - TTEL Hydro Power Company (Private) Limited and TTEL Somerset Hydro Power (Private) Limited which are engaged in generation of hydro power.

## ***Business Review/Future Developments***

A review of the Group's business and its performance during the year, with comments on financial results and future strategic developments, is contained in the Chairman's Statement (pages 2 to 5) and Management Report (pages 7 to 33) sections of this Annual Report. These reports together with the Financial Statements reflect the state of affairs of the Company and the Group.

There were no material change in the nature of businesses of the Company and the Group.

The Directors, to the best of their knowledge and belief, confirm that the Group has not engaged in any activities that contravene laws and regulations.

### **Financial Statements**

The Financial Statements of the Company and the Group are given on pages 86 to 119.

### **Auditor's Report**

The Auditor's Report on the Financial Statements of the Company and the Group is given on page 85.

### **Accounting Policies**

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 91 to 99. There were no changes in the Accounting Policies adopted by the Company or its subsidiaries.

### **Group Revenue**

The revenue of the Group during the year was Rs. 2,587.8 million (2008 - Rs. 2,264.0 million). A detailed analysis of the Group's turnover, profits and asset allocation relating to different segments is given in Note 3 to the Financial Statements.

The revenue in respect of tea increased by Rs. 264.3 million (2008 - Rs. 259.2 million) and rubber decreased by Rs. 1.0 million (2008 - Rs. 3.1 million) during the year.

Trade between Group Companies is conducted at fair market prices.

### **Results and Dividends**

The Group loss before taxation, amounted to Rs. 27.8 million (2008 - profit Rs. 111.9 million) in the year under review. After deducting Rs. 2.5 million (2008 - Rs. 3.9 million) for taxation and a consolidation loss of Rs. 8.1 million (2008 - Rs. 1.2 million) for minority shareholders' interest, the Group loss attributable to equity holders of the Company for the year was Rs. 22.2 million (2008 - profit Rs. 109.2 million).

No dividend has been proposed for the year (2008 - Rs. 1.25 per share).

### **Group Investment**

Group capital expenditure including investments in immature plantations during the year amounted to Rs. 264.1 million (2008 - Rs. 606.6 million).

### **Property, Plant & Equipment**

Capital expenditure of the Group during the year on Property, Plant & Equipment amounted to Rs. 82.4 million (2008 - Rs. 397.3 million) whilst that of the Company was Rs. 60.5 million (2008 - Rs. 140.2 million). The Company's investment on replanting of tea and rubber during the year amounted to Rs. 167.5 million (2008 - Rs. 156.1 million) and Rs. 3.9 million (2008 - Rs. 2 million) respectively.

Information relating to movement in Property, Plant & Equipment and replanting is given in Notes 4, 5, 6 A and 6 B to the Financial Statements.

### **Market Value of Properties**

The Group does not possess any freehold land.

### **Stated Capital and Reserves**

The stated capital of the Company, consisting of 23,750,000 Ordinary Shares and one Golden Share amounts to Rs. 350,000,010. There was no change in the stated capital during the year.

Total Group reserves at 31st December 2009 amount to Rs. 660.9 million (2008 - Rs. 712.8 million) comprising retained earnings. The movement is shown in the Statement of Changes in Equity in the Financial Statements.

### **Redeemable Debentures**

Information relating to the redeemable debentures amounting to Rs. 95 million (2008 - Rs. 95 million) held by Plantation Trust Fund is given in Note 15 to the Financial Statements.

### **Interests Register**

The Company, in compliance with the Companies Act No. 07 of 2007, maintains an Interests Register. Shareholders of subsidiary companies have unanimously agreed to dispense with the requirement to maintain an Interests Register.

Particulars of entries in the Interests Register maintained by the Company are detailed below:

### ***Directors' Interests in Transactions***

The Directors of the Company have made the general disclosures provided for in Section 192 (2) of the Companies Act No. 07 of 2007. Note 31 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

### ***Directors' Interests in Shares***

Directors of the Company who have shares in the Company have disclosed their shareholdings and any acquisitions/disposals to the Boards, in compliance with Section 200 of the Companies Act.

Details of Directors' shareholdings in the Company are given later in this Report. There were no changes in shareholdings during the year.

### ***Insurance & Indemnity***

Hayleys Plantation Services (Private) Limited (HPSL) the Parent Company has obtained a Corporate Guard Insurance Policy from Hayleys AIG Insurance Company Limited, providing worldwide cover to indemnify all past, present and future Directors and Officers (D&O) of the Company and its subsidiaries. The policy is extended worldwide with a total cover of US\$ 1 million. The premium paid was Rs. 0.7 million.

### ***Payment of Remuneration to Directors***

The Executive Directors' remuneration is determined within an established framework. The total remuneration for the year ended 31st December 2009 is Rs. 5.1 million (2008 - Rs. 5.0 million), which includes the value of perquisites granted as part of terms of service and is formally approved. The total remuneration of Non-Executive Directors for the year ended 31st December 2009 is Rs. 1.7 million determined according to scales of payment decided upon by the Board previously. The Board is satisfied that the payment of this remuneration is fair to the Company, and have signed a certificate confirming this.

### ***Corporate Donations***

No donations were made during the year (2008 - Nil) by the Company and its subsidiaries.

### ***Directorate***

The names of the Directors of the Company who held office during the financial year are given below and their brief profiles appear on pages 68 and 71.

No other Director held office during the period under review.

### ***Executive Directors***

Mr. S T Gunatilleke (Chief Executive)

Mr. M M M De Silva

### ***Non-Executive Directors***

Mr. A M Pandithage (Chairman - appointed 01.07.2009)

Mr. N G Wickremeratne (Chairman - retired 30.06.2009)

Mr. Merrill J Fernando (Alternate Ms. Minette Perera)

Mr. Malik J Fernando (Alternate Mr. Dilhan C Fernando)

Dr. Rohan M Fernando

Mr. J M S Brito

### ***Independent Non-Executive Directors***

Dr. U Liyanage

Dr. S S S B D G Jayawardena

Mr. L N De S Wijeyeratne

The basis on which Directors are classified as Independent Non-Executive Directors is discussed in the Corporate Governance Statement.

Mr. A M Pandithage was appointed to the Board as Chairman/Director since the last Annual General Meeting and in terms of the Article 28 (2) of the Articles of Association of the Company, shareholders will be requested to re-elect him at the Annual General Meeting.

Mr. M M M De Silva and Mr. J M S Brito retire by rotation and being eligible, offer themselves for re-election.

Notice has been given pursuant to Section 211 of Companies Act No. 07 of 2007, of the intention to propose an ordinary resolution for re-election of Mr. Merrill J Fernando, notwithstanding the age limit of 70 years stipulated by Section 210 of Companies Act. Mr. Fernando is 79 years old.

The names of Directors holding office at the end of the financial year in respect of subsidiaries appear on page 123.

### **Management Fees**

The management fee has been charged at 5% of EBITDA by Hayleys Plantation Services (Private) Limited for the year under review.

### **Corporate Governance**

The Company has complied with the Corporate Governance rules laid down under the Listing Rules of the Colombo Stock Exchange. The Enterprise Governance Report on pages 54 to 72 discusses this further.

### **Auditors**

Messrs Ernst & Young, Chartered Accountants are deemed re-appointed as Auditors of the Company, in accordance with Section 158 of the Companies Act No. 07 of 2007. A resolution proposing the Directors be authorised to determine their remuneration will be submitted at the Annual General Meeting.

The Auditors, Messrs Ernst & Young, Chartered Accountants were paid Rs. 1.9 million (2008 - Rs. 1.7 million) as audit fees and audit related work.

Messrs KPMG Ford, Rhodes, Thornton & Co. were appointed as Auditors of the two subsidiaries, TTEL Hydro Power Company (Private) Limited and TTEL Somerset Hydro Power (Private) Limited and were paid Rs. 0.08 million as audit fees for the year (2008 - Rs. 0.08 million).

The Auditors of the Company and its subsidiaries, have confirmed that they do not have any relationship (other than that of an Auditor) with, or interests in, the Company or any of its subsidiaries other than those disclosed above.

### **Share Information**

Information relating to earnings, dividends, net assets, market value per share and share trading is given on pages 121 and 122.

### **Events Occurring After the Balance Sheet Date**

No circumstances have arisen since the Balance Sheet date that would require adjustment, or disclosure in the accounts other than those disclosed in Note 30 to the Financial Statements on page 118.

### **Employment**

The number of persons employed by the Company at year-end was 11,095 (2008 - 11,340) of which 11,057 (2008 - 11,303) are engaged in employment outside the District of Colombo.

### **Statutory Payments**

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 81.

### **Environmental Protection**

The Group's efforts to conserve scarce and non-renewable resources, as well as its environmental objectives and key initiatives, are described in the CSR Report on page 37.

The Group's business activities can have direct and indirect effects on the environment. It is the Group's policy to minimise any adverse effects its activities have on the environment and to promote co-operation and compliance with the relevant authorities and regulations.

### **Internal Controls**

The Directors acknowledge their responsibility for the Group's system of internal control. The system is designed to give assurance, *inter alia*, regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can only ensure reasonable, and not absolute, assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board, having reviewed the system of internal controls, is satisfied with its effectiveness for the period up to the date of signing the Financial Statements.



### **Going Concern**

The Directors, after making necessary inquiries and reviews including the evaluation of the Group's budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

### **Directors' Shareholdings**

Directors' holdings of ordinary shares in the Company are given below:

There had been no share dealings by Directors during the year.

Mr. Merrill J Fernando - 1,184,700 ( 2008 - 1,184,700). These shares are held through Merrill J Fernando & Sons (Private) Limited.

No shares are held by the Directors in the subsidiaries in the Company

### **Major Shareholdings**

The twenty major shareholders as at 31st December, 2009 are given on page 122 of this Report.

### **Annual General Meeting**

The Annual General Meeting will be held at the Registered Office of the Company, No. 400, Deans Road, Colombo 10 at 10.30 a.m. on 30th March 2010. The Notice of the Annual General Meeting appears on page 125.

For and on behalf of the Board

*(Sgd.)*

**A M Pandithage**

*Chairman*

*(Sgd.)*

**M M M De Silva**

*Director*

*(Sgd.)*

**Hayleys Group Services (Private) Limited**

*Secretaries*

11th February 2010

# OUR ESTATES AND FACTORIES

Estate	Total Extent Ha	Area in Tea		Area in Rubber		Others Ha	Total Cultivated Ha	Uncultivated Ha	Type of Factory	Factory Capacity Kg '000	Name of Manager	No. of Workers	Crop Kg '000	Yield Kg/Ha	Factory Elevation m
		Immature Ha	Mature Ha	Immature Ha	Mature Ha										
<b>T'kelle/Nanu Oya</b>															
Bearwell	423.41	30.76	315.64	-	-	20.94	367.34	56.07	Ortho	720	S Edirisinghe	665	501	1,586	1,280
Calsay	282.25	25.95	175.60	-	-	29.00	230.55	51.70	Ortho	430	D M G B Dassanayake	489	202	1,155	1,463
Clarendon	191.42	21.81	143.04	-	-	6.10	170.95	20.47	Ortho	600	D M A S Dissanayake	337	135	944	1,555
Dessford	431.99	45.16	278.38	-	-	24.42	347.96	84.03	Ortho	720	L N Ratnayake	853	389	1,396	1,382
Great Western	628.48	37.98	381.85	-	-	66.97	486.8	141.68	Ortho	720	N P Abeyasinghe	924	512	1,341	1,448
Holyrood	465.96	47.76	300.44	-	-	60.94	409.14	56.82	Ortho	720	H R J C Senanayake	702	407	1,356	1,341
Logie	329.88	24.27	203.95	-	-	27.47	255.69	74.19	Ortho	500	M W S S K Wijewardena	441	334	1,637	1,220
Mattakelle	361.96	31.35	227.81	-	-	43.34	302.5	59.46	Ortho	720	P G G Jayathilaka	839	475	2,081	1,372
Palmerston	203.11	20.00	142.11	-	-	16.75	178.86	24.25			E S B A Egodawela	358	223	1,583	-
Radella	458.76	43.51	228.23	-	-	99.07	370.81	87.95	Ortho	720	A C M Bandaranayake	800	308	1,341	1,402
Somerset	458.90	48.02	290.46	-	-	37.31	375.79	83.11	Ortho	720	S B Alawattegama	903	459	1,579	1,102
Wattegoda	529.89	37.75	281.50	-	-	99.90	419.15	110.74	Ortho	720	G K Wijesekara	815	435	1,546	1,219
Sub Total	4,766.01	414.32	2,969.01	-	-	532.21	3,915.54	850.47		7,290		8,126	4,380	1,474	-
<b>Galle</b>															
Moragalla	382.12	37.36	78.49	121.14	-	31.10	268.09	114.03	Ortho	600	H P W Vithanage	348	301	1,572	38
Pitiagoda	-	-	0.00		-				Ortho	400		16	-	-	-
Sub Total	382.12	37.36	78.49	121.14	-	31.10	268.09	114.03		1,000		364	301	1,572	-
<b>Deniyaya/Urubokka</b>															
Deniyaya	329.71	45.57	118.10		-	22.75	186.42	143.29	Ortho	600	G P G K Pathirana	392	480	1,196	310
Handford	248.44	30.54	50.87		-	34.70	116.11	132.33	Ortho	600	C D Ikiriwatte	215	362	1,598	400
Indola	282.16	19.72	88.34	59.20	20.42	43.72	231.40	50.76			W D Jayasinghe	300	101	1,148	-
Kirwanaganga	482.71	33.96	335.11	-	-	19.08	388.15	94.56	Ortho	1,050	D M H U Mahadivulwewa	1,122	691	1,624	310
Sub Total	1,343.02	129.79	592.42	59.2	20.42	120.25	922.08	420.94	-	2,250		2,029	1,634	1,465	-
Grand Total	6,491.15	581.47	3,639.92	180.34	20.42	683.56	5,105.71	1,385.44	-	10,540		10,519	6,315	1,475	-

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible, under Sections 150 (1), 151, 152 (1), 153 (1) and 153(2) of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit & loss of the Company and the Group for the financial year. The Directors are also responsible, under Section 148 for ensuring that proper accounting records are kept to disclose, with reasonable accuracy, the financial position and enable preparation of the Financial Statements.

The Board accepts responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that in preparing the Financial Statements, appropriate accounting policies have been selected and applied consistently while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards. The Financial Statements provide the information required by the Companies Act and the Listing Rules of the Colombo Stock Exchange.

The Directors have taken reasonable measures to safeguard the assets of the Company and the Group and, in that context, have instituted appropriate systems of internal control with a view to prevent and detect fraud and other irregularities.

The External Auditors, Messrs Ernst & Young, re-appointed in terms of Section 158 of the Companies Act were provided with every opportunity to undertake the inspections they considered appropriate to enable them form their opinion on the Financial Statements. The Report of the Auditors, shown on page 85 sets out their responsibilities in relation to the Financial Statements.

## **Compliance Report**

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees and the Government that were due in respect of the Company and its Subsidiaries as at the Balance Sheet date have been paid or where relevant, provided for.

By Order of the Board

**TALAWAKELLE TEA ESTATES PLC**

**Hayleys Group Services (Pvt) Limited**

*Secretaries*

11th February 2010



# FINANCIAL REPORTS

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## 2009

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### **Financial Calendar 2009**

First and Final Dividend of 2008 paid .....	6th April 2009
1st Quarter Report .....	28th April 2009
2nd Quarter Report.....	27th July 2009
3rd Quarter Report.....	28th October 2009
Annual Report 2009.....	11th February 2010
18th Annual General Meeting .....	30th March 2010

# AUDIT COMMITTEE REPORT

## ROLE OF THE AUDIT COMMITTEE

The role of the Committee, which has specific terms of reference, is described in the Enterprise Governance Report on page 54.

## COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee appointed by and responsible to the Board of Directors, comprises of three Non-Executive Directors of whom two are Independent. The Director/CEO and the Chief Financial Officer (CFO) attend the meetings and the CFO act as the Secretary. The Chairman and other Executive Directors attend meetings as required. The Chairman of the Audit Committee is Mr. L N De S Wijeyeratne, a Chartered Accountant. The names of the members and brief profiles of each member are given on page 61 and 68 to 71 respectively of this report. Their individual and collective financial knowledge and business acumen and the independence of the Committee, are brought to bear on their deliberations and judgments on matters that come within the Committee's purview.

## MEETINGS

The Committee met 3 times during the year. The attendance of the members at these meetings is as follows:

Mr. L N de S Wijeyeratne	3/3
Dr. S S B D G Jayawardena	3/3
Mr. Malik J Fernando	0/3

Other members of the Board and the Group Management Committee, as well as the External Auditors were present at discussions where this was appropriate. The proceedings of the Audit Committee are regularly reported to the Board of Directors.

## TASKS OF THE AUDIT COMMITTEE

### Financial Reporting System

The Committee reviewed the financial reporting system adopted by the Company in the preparation of its quarterly Financial Statements to ensure reliability of the processes and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Accounting Standards. The Committee in its evaluation of the financial reporting system, also recognised the adequacy of the content and quality of routine management information reports forwarded to its members.

### Internal Audits

The Committee reviewed the process to assess the effectiveness of the internal financial controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Management Audit

reports on key control elements and procedures that are selected according to an annual plan, were reviewed.

During the year it was decided to outsource some part of the Internal Audit Assignment to leading audit firms in line with an agreed annual audit plan. Follow up and reviews were held with management to ensure that audit recommendations are being acted upon. The Committee obtained and reviewed statements from the management of the Company as to the mitigatory action taken or contemplated as to risks arising from liquidity, internal control systems and procedures and adequacy of insurance for safeguarding of assets.

The Committee obtained representations from the Company on the adequacy of provisions made to possible liabilities and reviewed reports tabled, certifying their compliance with relevant statutory requirements.

### External Audits

The Committee held meetings with the External Auditors to review the nature, approach and scope of audit. Actions taken by the management in response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the Company. Remedial action was recommended wherever necessary.

The Audit Committee has reviewed the other services provided by the External Auditors to the Company, to ensure that their independence as Auditors has not been compromised.

### Appointment of External Auditors

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be continued as Auditors for the Year ending 31st December 2010.

## SUPPORT TO THE COMMITTEE

The Committee received information and support from the management during the year to enable it to carry out its duties and responsibilities effectively.

### Conclusion

The Audit Committee is satisfied that the Company's accounting policies and operational controls provide reasonable assurance that the affairs of the Company are managed in accordance with the Company policies and that Company assets are properly accounted for and adequately safeguarded.

(Sgd.)

**L N De S Wijeyeratne**  
Chairman

Audit Committee  
11th February 2010

# INDEPENDENT AUDITORS' REPORT

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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TALAWAKELLE TEA ESTATES PLC**

### **Report on the Financial Statements**

We have audited the accompanying Financial Statements of Talawakelle Tea Estates PLC and the Consolidated Financial Statements of the Company and its subsidiaries which comprise the Balance Sheets as at December 31, 2009 and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Scope of Audit and Basis of Opinion**

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### **Opinion Company**

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2009, and the Financial Statements give a true and fair view of the Company's state of affairs as at December 31, 2009 and its loss and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **Group**

In our opinion, the consolidated Financial Statements give a true and fair view of the state of affairs as at December 31, 2009 and the loss and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

### **Report on Other Legal and Regulatory Requirements**

In our opinion, these Financial Statements also comply with the requirements of Sections 151(2) and 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

*(Sgd.)*

**Ernst & Young  
(Chartered Accountants)**

Colombo  
11th February 2010

# INCOME STATEMENTS

Year ended 31st December	Notes	Company		Group	
		2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Revenue</b>	3	2,501,230,905	2,240,926,595	2,587,812,149	2,264,085,662
Cost of sales		(2,327,800,788)	(1,952,011,362)	(2,342,696,570)	(1,964,000,297)
Gross profit		173,430,117	288,915,233	245,115,579	300,085,365
Other income and gains	21	38,957,689	41,870,973	38,690,633	42,105,588
Administrative expenses		(76,975,313)	(84,488,042)	(96,420,947)	(80,828,745)
Management fee		(14,144,785)	(19,583,723)	(14,144,785)	(19,583,723)
Finance cost	22	(140,376,579)	(114,316,293)	(201,128,365)	(129,820,721)
<b>Profit/(loss) before tax</b>	23	(19,108,871)	112,398,148	(27,887,885)	111,957,764
Income tax expense	24	5,274,523	(1,795,095)	(2,513,907)	(3,951,889)
<b>Profit/(loss) for the year</b>		(13,834,348)	110,603,053	(30,401,792)	108,005,875
<b>Attributable to:</b>					
Equity holders of the parent		(13,834,348)	110,603,053	(22,283,744)	109,278,492
Minority interest		–	–	(8,118,048)	(1,272,617)
<b>Profit for the year</b>		(13,834,348)	110,603,053	(30,401,792)	108,005,875
Basic earnings/(loss) per share	25	(0.58)	4.66	(0.94)	4.60
Dividend per share	26	–	1.25	–	1.25

*Figures in brackets indicate deductions.*

The Accounting Policies and Notes on pages 91 to 119 form an integral part of the Financial Statements.



# BALANCE SHEETS

As at 31st December		Company		Group	
	Notes	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Leasehold property	4	148,213,394	152,330,431	148,213,394	152,330,431
Property, plant & equipment immovable estate assets on finance lease (other than leasehold property)	5	145,869,757	156,854,897	145,869,757	156,854,897
Tangible assets other than immature/mature plantations	6A	626,037,251	617,265,809	1,075,853,399	1,056,755,912
Immature/mature plantations	6B	1,537,900,879	1,400,306,024	1,537,900,879	1,400,306,024
Development cost		-	-	15,764,700	16,005,273
Investments	6C	65,790,000	65,790,000	-	-
		<b>2,523,811,281</b>	<b>2,392,547,161</b>	<b>2,923,602,129</b>	<b>2,782,252,537</b>
<b>Current Assets</b>					
Inventories	7	361,752,445	359,947,539	361,752,445	359,947,539
Trade and other receivables	8	126,975,720	84,636,978	152,520,754	106,633,597
Amounts due from related companies	9	77,759,215	53,626,680	1,959,132	-
ACT recoverables		7,473,037	7,473,037	7,473,037	7,473,037
VAT recoverables		212,222	4,598,224	212,222	4,598,224
Short-term investments	10	148,792,880	18,900,000	148,792,880	18,900,000
Cash and bank balances		39,738,468	41,148,957	45,212,145	41,148,957
		<b>762,703,987</b>	<b>570,331,415</b>	<b>717,922,615</b>	<b>538,701,354</b>
<b>TOTAL ASSETS</b>		<b>3,286,515,268</b>	<b>2,962,878,576</b>	<b>3,641,524,744</b>	<b>3,320,953,891</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Stated capital	11	350,000,010	350,000,010	350,000,010	350,000,010
Retained earnings		676,398,569	719,920,417	660,903,986	712,875,230
<b>Equity</b>		<b>1,026,398,579</b>	<b>1,069,920,427</b>	<b>1,010,903,996</b>	<b>1,062,875,240</b>
Minority interest	12	-	-	54,375,989	62,494,037
<b>Total Equity</b>		<b>1,026,398,579</b>	<b>1,069,920,427</b>	<b>1,065,279,985</b>	<b>1,125,369,277</b>
<b>Non-Current Liabilities and Deferred Income</b>					
Interest-bearing loans and borrowings	13	604,292,461	412,753,672	824,711,681	654,001,845
Redeemable debentures	15	95,000,000	95,000,000	95,000,000	95,000,000
Retiring benefit obligations	16	664,524,181	490,804,032	664,524,181	490,804,032
Deferred tax liability	24.2	10,568,185	22,957,964	21,262,068	25,983,736
Deferred income	17	221,936,033	197,917,065	221,936,033	197,917,065
Net liability to the lessor payable after one year	18	133,890,084	135,687,652	133,890,084	135,687,652
		<b>1,730,210,944</b>	<b>1,355,120,385</b>	<b>1,961,324,047</b>	<b>1,599,394,330</b>
<b>Current Liabilities</b>					
Trade and other payables	19	348,780,965	283,272,885	356,287,450	303,296,029
Interest bearing loans and borrowings	13	98,217,203	55,200,504	123,081,803	67,827,750
Net liability to the lessor payable within one year	18	1,797,568	1,728,431	1,797,568	1,728,431
VAT payable		-	-	-	4,577,673
Amounts due to related companies	20	2,112,634	3,223,527	54,756,516	12,822,759
Short-term borrowings	14	58,193,150	55,000,000	58,193,150	55,000,000
Bank overdraft		20,804,225	139,412,417	20,804,225	150,937,642
		<b>529,905,745</b>	<b>537,837,764</b>	<b>614,920,712</b>	<b>596,190,284</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,286,515,268</b>	<b>2,962,878,576</b>	<b>3,641,524,744</b>	<b>3,320,953,891</b>

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

(Sgd.)

**D S Seneviratne**

Chief Financial Officer/Deputy Chief Executive Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board by

(Sgd.)

**A M Pandithage**

Chairman/Director

The Accounting Policies and Notes on pages 91 to 119 form an integral part of the Financial Statements.

Colombo

11th February 2010

(Sgd.)

**M M M De Silva**

Director

# STATEMENTS OF CHANGES IN EQUITY

<i>Year ended 31st December 2009</i>	Notes	Stated Capital Rs.	Retained Earnings Rs.	Minority Interest Rs.	Total Rs.
<b>COMPANY</b>					
Balance as at 31st December 2007		350,000,010	668,692,364	–	1,018,692,374
Profit/(loss) for the year		–	110,603,053	–	110,603,053
Dividends		–	(59,375,000)	–	(59,375,000)
<b>Balance as at 31st December 2008</b>		<b>350,000,010</b>	<b>719,920,417</b>	<b>–</b>	<b>1,069,920,427</b>
Profit/(loss) for the year		–	(13,834,348)	–	(13,834,348)
Dividends	26	–	(29,687,500)	–	(29,687,500)
<b>Balance as at 31st December 2009</b>		<b>350,000,010</b>	<b>676,398,569</b>	<b>–</b>	<b>1,026,398,579</b>
<b>GROUP</b>					
Balance as at 31st December 2007		350,000,010	669,093,803	63,595,698	1,082,689,511
Profit/(loss) for the year		–	109,278,492	(1,272,617)	108,005,875
Dividends		–	(59,375,000)	–	(59,375,000)
Balance as at 31st December 2008		350,000,010	718,997,295	62,323,081	1,131,320,386
Consolidation adjustment on Development cost		–	(6,122,065)	170,956	(5,951,109)
<b>Restated balance as at 31st December 2008</b>		<b>350,000,010</b>	<b>712,875,230</b>	<b>62,494,037</b>	<b>1,125,369,277</b>
Profit/(loss) for the year		–	(22,283,744)	(8,118,048)	(30,401,792)
Dividends		–	(29,687,500)	–	(29,687,500)
<b>Balance as at 31st December 2009</b>		<b>350,000,010</b>	<b>660,903,986</b>	<b>54,375,989</b>	<b>1,065,279,985</b>

The Accounting Policies and Notes on pages 91 to 119 form an integral part of the Financial Statements.

# CASH FLOW STATEMENTS

Year ended 31st December		Company		Group	
	Notes	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net profit before taxation		(19,108,871)	112,398,148	(27,887,885)	111,957,764
<b>Adjustments for</b>					
Provision for defined benefit plan costs	16	214,337,000	125,277,467	214,337,000	125,277,467
Depreciation/amortisation	23	110,904,209	94,288,331	122,775,222	98,984,460
Amortisation of grants	17	(4,844,751)	(4,705,166)	(4,844,751)	(4,705,165)
Finance costs	22	140,376,579	114,316,293	201,128,365	129,820,721
Profit on disposal of assets	21	(3,538,044)	(4,709,660)	(3,538,044)	(4,709,660)
<b>Operating profit before working capital changes</b>		<b>438,126,122</b>	<b>436,865,413</b>	<b>501,969,907</b>	<b>456,625,587</b>
(Increase)/decrease in inventories		(1,804,906)	(33,479,776)	(1,804,906)	(33,470,668)
(Increase)/decrease in trade and other receivables		(42,338,742)	(18,356,275)	(50,608,825)	(7,497,061)
(Increase)/decrease in VAT/ACT/WHT recoverable		4,386,002	(954,289)	4,386,002	(954,289)
Increase/(decrease) in trade and other payables		64,816,663	18,642,608	65,019,408	37,018,237
(Increase)/decrease in amounts due from related companies		(24,132,535)	(38,121,711)	(1,959,132)	93,306
Increase/(decrease) in amounts due to related companies		(1,110,893)	(1,325,729)	41,933,757	7,275,230
Increase/(decrease) in VAT payables		-	-	(4,577,673)	4,577,673
<b>Cash generated from operations</b>		<b>437,941,711</b>	<b>363,270,241</b>	<b>554,358,538</b>	<b>463,668,015</b>
Finance costs paid		(130,602,277)	(104,475,511)	(191,354,063)	(120,519,461)
Payment of ESC/Income Tax/SRL		(6,423,835)	(7,262,989)	(6,423,835)	(7,262,989)
Defined benefit plan costs paid	16	(40,616,851)	(37,634,466)	(40,616,851)	(37,634,466)
<b>Net cash from operating activities</b>		<b>260,298,748</b>	<b>213,897,275</b>	<b>315,963,789</b>	<b>298,251,099</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Grant received	17	28,863,719	71,500,116	28,863,719	71,500,116
Proceeds from disposal of property, plant & equipment		3,538,044	4,709,660	3,538,044	4,709,660
Field development expenditure (Note A)	6B	(181,646,143)	(209,279,728)	(181,646,143)	(209,279,728)
Purchase of property, plant & equipment (Note B)		(60,522,187)	(140,188,199)	(82,478,677)	(397,348,071)
<b>Net cash used in investing activities</b>		<b>(209,766,567)</b>	<b>(273,258,151)</b>	<b>(231,723,057)</b>	<b>(530,418,023)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividend paid		(29,687,500)	(59,375,000)	(29,687,500)	(59,375,000)
Proceeds from Debentures		-	95,000,000	-	95,000,000
Lease rentals paid		(24,440)	(446,982)	(24,440)	(446,982)
Payment of Government lease rentals		(11,502,734)	(11,502,734)	(11,502,734)	(11,502,734)
Proceeds from loans		441,034,903	139,681,307	441,034,903	234,548,530
Repayment/transfer of loans		(206,454,977)	(95,029,351)	(215,046,578)	(107,672,014)
Minority shareholders		-	-	(8,118,048)	(1,272,618)
<b>Net cash from financing activities</b>		<b>193,365,252</b>	<b>68,327,240</b>	<b>176,655,603</b>	<b>149,279,182</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>		<b>243,897,433</b>	<b>8,966,364</b>	<b>260,896,335</b>	<b>(82,887,742)</b>
Cash & cash equivalents at the beginning of the year (Note C)		(134,363,460)	(143,329,824)	(145,888,685)	(63,000,943)
<b>Cash &amp; cash equivalents at the end of the year (Note D)</b>		<b>109,533,973</b>	<b>(134,363,460)</b>	<b>115,007,650</b>	<b>(145,888,685)</b>

CASH FLOW STATEMENTS

	Tea Rs.	Rubber Rs.	Unallocated Rs.	Hydro Rs.	Total Rs.
<b>COMPANY</b>					
<b>Note A: Investment in Field Development Expenditure</b>					
Investment in immature plantations and field development 2009	167,586,653	3,920,596	10,138,893	–	181,646,142
Investment in immature plantations 2008	156,100,578	2,032,570	51,146,580	–	209,279,728
<b>Note B: Investment in Property, Plant &amp; Equipment</b>					
Investment in property, plant & equipment 2009	60,522,187	–	–	–	60,522,187
Investment in property, plant & equipment 2008	140,188,199	–	–	–	140,188,199
<b>GROUP</b>					
<b>Note A: Investment in Field Development Expenditure</b>					
Investment in immature plantations and field development 2009	167,586,653	3,920,596	10,138,893	–	181,646,142
Investment in immature plantations 2008	156,100,578	2,032,570	51,146,580	–	209,279,728
<b>Note B: Investment in Property, Plant &amp; Equipment</b>					
Investment in property, plant & equipment 2009	60,522,187	–	–	21,956,490	82,478,677
Investment in property, plant & equipment 2008	140,188,189	–	–	257,159,872	397,348,061
<b>Note C</b>					
<b>Cash &amp; cash equivalents at the beginning of the year</b>					
Cash & bank balances	41,148,957	22,188,941	41,148,957	113,730,685	
Short-term investments	18,900,000	–	18,900,000	–	
Bank overdrafts	(139,412,417)	(73,118,765)	(150,937,642)	(73,118,765)	
Short-term loans	(55,000,000)	(92,400,000)	(55,000,000)	(103,612,863)	
	(134,363,460)	(143,329,824)	(145,888,685)	(63,000,943)	
<b>Note D</b>					
<b>Cash &amp; cash equivalents at the end of the year</b>					
Cash & bank balances	39,738,468	41,148,957	45,212,145	41,148,957	
Short-term investments	148,792,880	18,900,000	148,792,880	18,900,000	
Bank overdrafts	(20,804,225)	(139,412,417)	(20,804,225)	(150,937,642)	
Short-term loans	(58,193,150)	(55,000,000)	(58,193,150)	(55,000,000)	
	109,533,973	(134,363,460)	115,007,650	(145,888,685)	

Note: During the financial year, the Company and the Group acquired property, plant & equipment to the aggregate value of Rs. 60,522,187/- and Rs. 82,478,677/- respectively.

The Accounting Policies and Notes on pages 91 to 119 form an integral part of the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

### 1.1 Domicile and Legal Form

Talawakelle Tea Estates PLC is a limited liability Company incorporated and domiciled in Sri Lanka, under the Companies Act No. 17 of 1982 (The Company re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act No. 23 of 1987. The registered office of the Company is located at No. 400, Deans Road, Colombo 10 and Plantations are situated in the planting districts of Talawakelle, Nanu Oya, Galle and Deniyaya.

### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were the cultivation, manufacture and sale of tea.

### 1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking is Hayleys Plantation Services (Pvt) Limited which is incorporated in Sri Lanka.

### 1.4 Date of Authorisation for Issue

The Financial Statements of Talawakelle Tea Estates PLC for the year ended 31st December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 11th February 2010.

### 2.1 Basis of Preparation

These Financial Statements have been prepared on a historical cost basis except for leasehold property, certain property, plant & equipment which are stated at revalued amounts. The Financial Statements are presented in Sri Lanka Rupees and all values are rounded to the nearest Rupee.

#### 2.1.1 Statement of Compliance

The Financial Statements of Talawakelle Tea Estates PLC have been prepared in accordance with the Sri Lanka

Accounting Standards (SLAS) adopted by The Institute of Chartered Accountants of Sri Lanka (ICASL) and also in compliance with the requirements of the Companies Act No. 07 of 2007.

#### 2.1.2 Going Concern

The Directors have made an assessment of the Talawakelle Tea Estates PLC's ability to continue as a going concern in the foreseeable future and they do not intend either to liquidate or to cease trading.

#### 2.1.3 Comparative Information

The Accounting Policies have been consistently applied by the Company and are consistent with those used in the previous year unless otherwise stated.

#### 2.1.4 The Consolidated Financial Statements

The Consolidated Financial Statements comprise the Financial Statements of Talawakelle Tea Estates PLC and its subsidiaries TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited in terms of Sri Lanka Accounting Standard 26 - 'Consolidated and Separate Financial Statements'.

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The Financial Statements of the subsidiaries are included in the Consolidated Financial Statements from the date the control effectively commences until the date that control effectively ceases.

The total profits and losses for the period of the Company and its subsidiaries included in consolidation are shown in the Consolidated Income Statement with the proportion of profit or loss after taxation applicable to minority shareholders of the subsidiaries being deducted as 'Minority Shareholders' Interest'.

All assets and liabilities of the Company and of its subsidiaries are included in the Consolidated Balance Sheet. The proportionate interest of minority shareholders in the net assets employed by the Group is disclosed separately in the Consolidated Balance Sheet under the heading 'Minority Shareholders' Interest'.

The Financial Statements of the Company and its subsidiaries included in the Consolidated Financial Statements are prepared under uniform accounting policies and the financial year of Talawakelle Tea Estates PLC ends on 31st December and subsidiaries ends on 31st March.

Intra-group balances and intra-group transactions are eliminated in full in the Consolidated Financial Statements.

## **2.2 Significant Accounting Judgments, Estimates and Assumptions**

### **Judgments**

In the process of applying the Company's Accounting Policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Statements.

### **Inventory Valuation**

The Company has valued the unsold produce stock as at the Balance Sheet date at their actual or estimated realisable values, net of direct selling expenses based on most recent selling prices available subsequent to the year end.

### **Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **Impairment of Goodwill**

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation

of the 'value in use' of the cash generating units to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate present value of those cash flows.

### **Deferred Tax Assets**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### **Defined Benefit Plans**

The cost of defined benefit plan gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The actuarial present value of promised retirement benefits at the most recent actuarial valuation is Rs. 664,524,181/-. Further details are given in Note 16.

## **2.3 Summary of Significant Accounting Policies**

### **2.3.1 Taxation**

#### **(a) Current Taxes**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used for the computation are those that are enacted or substantively enacted by the Balance Sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

*(b) Deferred Taxation*

Deferred income tax is provided, using the liability method, on all temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Balance Sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the Income Statement.

**2.3.2 Borrowing Costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

**2.3.3 Intangible Assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition of the intangible assets, the cost model is applied requiring the assets to be carried at cost, less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs are not capitalised and expenditure is reflected in the Income Statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function/nature of the intangible asset. Amortisation was commenced when the assets were available for use.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the

change in the useful life assessment from indefinite to finite is made on a prospective basis.

Intangible assets that are not yet available for sale are tested for impairments at each financial year end, even if there is no indication that the asset is impaired.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

#### **2.3.4 Inventories**

Inventories other than produce stocks are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business after allowing for the estimated cost of completion/conversion to bring to a saleable condition.

The costs incurred in bringing inventories to its present location and condition are accounted for using the following cost formula:

##### **Input Material**

At average cost.

##### **Growing Crop - Nurseries**

At the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads, less provision for over grown plants.

##### **Produce Stocks**

Valued at estimated selling prices or since realised prices.

##### **Spares and Consumables and Packing Materials**

At actual cost.

#### **2.3.5 Trade and Other Receivables**

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from related parties are recognised at cost, less provision for bad and doubtful receivables.

#### **2.3.6 Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e., three months or less from the date of acquisitions are also treated as cash equivalents.

Interest paid and received is classified as operating cash flows.

The Cash Flow Statements are reported based on the indirect method.

#### **2.3.7 Property, Plant & Equipment**

##### *(a) Cost*

Property, plant & equipment is recorded at cost, less accumulated depreciation and less any impairment in value.

##### *(b) Cost and Valuation*

All items of property, plant & equipment are initially recorded at cost. Where items of property, plant & equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the Balance Sheet date. Subsequent to the initial recognition



as an asset at cost, revalued property, plant & equipment are carried at revalued amounts less any subsequent depreciation thereon. All other property, plant & equipment are stated at historical cost less depreciation.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an expense. In these circumstances, the increase is recognised as income to the extent of the previous written-down value. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to accumulated profits or loss on retirement or disposal of the asset.

*(c) Leasehold Property*

Leasehold property comprising land use rights obtained on a long-term basis is stated as recorded carrying values as at the effective date of Sri Lanka Accounting Standard 19 - Leases in line with ruling of the Urgent Issues Task Force of The Institute of Chartered Accountants of Sri Lanka. Such carrying amounts are amortised over the remaining lease term or useful life of the leased property whichever is shorter. No further revaluations of these leasehold property will be carried out.

*(d) Depreciation*

The provision for depreciation is calculated on the cost or valuation of all property, plant & equipment other than

freehold land, in order to write-off such amounts over the estimated useful lives by equal instalments as follows:

Buildings	over 40 years
Plant and Machinery	over 13 years
Furniture and Fittings	over 10 years
Vehicles	over 05 years
Equipment	over 04 years
Computers	over 04 years
Mini Hydro Power Plant	over 20 years
Roads	over 05 years

Replanting and New Planting

Tea	over 33 years
Rubber	over 20 years

The leasehold properties are being amortised in equal amounts over the following periods:

Bare Land	over 53 years
Mature Plantations	over 30 years
Buildings	over 25 years
Machinery	over 15 years
Improvements to Land	over 30 years

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

The policy has been changed from current year to depreciate assets when it's available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or it is derecognised.

*(e) Derecognition*

An item of property, plant & equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying

amount of the asset) is included in the Income Statement in the year the asset is derecognised.

**2.3.8 Immature and Mature Plantations**

The cost of replanting and new planting is classified as immature plantations up to the time of harvesting the crop.

Further, the general charges on labour incurred on the plantation are apportioned based on the labour days spent on respective replanting and new planting, and capitalised on the immature areas. The remaining portion of the general charges is expensed in the accounting period in which it is incurred.

The cost of areas coming into bearing are transferred to mature plantations and depreciated over their useful life period.

**2.3.9 Infilling Cost**

Where infilling results in an increase in the economic life of the relevant field beyond its previously assessed standard of performance, the costs are capitalised in accordance with Sri Lanka Accounting Standard 32 and depreciated over the useful life at rates applicable to mature plantation.

Infilling costs that are not capitalised have been charged to the Income Statement in the year in which they are incurred.

**2.3.10 Leases**

*(a) Finance Leases - where the Company is the Lessee*  
Property, plant & equipment on finance leases, (which effectively transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item) are capitalised at their cash price and depreciated/amortised over the period the Company is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor is shown as a liability.

The finance charges allocated to future periods are separately disclosed under Notes 13.6 and 18.

The interest element of the rental obligation applicable to each financial year is charged to the Income Statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The cost of improvements to or on leased property is capitalised and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

*(b) Operating Leases*

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases.

Lease payments (excluding costs for services such as insurance and maintenance) paid under operating leases are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

**2.3.11 Short-Term Investments**

Treasury Bills and other interest-bearing securities held for resale in the near future to benefit from short-term market movements are accounted for at cost plus the relevant proportion of the discounts or premiums.

**2.3.12 Long-Term Investments**

Long-term investments are stated at cost. Carrying amounts are reduced to recognise a decline other than temporary, determined for each investment individually. These reductions for other than temporary declines in carrying amounts are charged to Income Statement.

**2.3.13 Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of

resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

### 2.3.14 Retirement Benefit Obligations

#### (a) Defined Benefit Plans - Gratuity

The Retirement Benefit Plan adopted is as required under the Payment of Gratuity Act No. 12 of 1983 and Indian Repatriate Act No. 34 of 1978 to eligible employees.

The Company measures the present value of the promised retirement benefits of gratuity which is a Defined Benefit Plan every two years using Projected Unit Credit (PUC) method as recommended by Sri Lanka Accounting Standard 16 - Retirement Benefits Costs. The Actuarial Valuation was carried out by a professional firm of actuaries - Messers Actuarial and Management Consultants (Private) Limited as at 31st December 2009. The Company expects to carry out the actuarial valuation once in every two years.

The key assumptions used by the actuary include the following:

(i) Rate of Interest		10% p.a. (2006 - 10% p.a.)
(ii) Rate of Salary Increase	- Workers	18.5% every two years (2006 - 11% every two years)
	- Staff	10% p.a. (2006 - 7.5% p.a.)
(iii) Retirement Age	- Workers	60 years
	- Staff	55 years
(iv) The Company will continue as a going concern.		

During the year, the assumption on the rate of the salary increase of workers was changed to 18.5% every two years from 11% every two years and of staff to 10% p.a. from 7.5% p.a.

Actuarial valuation gains and losses are recognised as income or expenses over the expected average remaining working lives of the participants of the plan.

This item is grouped under retirement benefit obligations in the Balance Sheet. The liability is not externally funded.

#### (b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and to the Employees' Trust Fund respectively.

### 2.3.15 Grants and Subsidies

Grants and subsidies are recognised at their fair value where there is reasonable assurance that the grant/subsidy will be received and all attaching conditions, if any, will be complied with. When the grant or subsidy relates to an income item it is recognised as income over the periods necessary to match them to the costs to which it is intended to compensate on a systematic basis.

Grants and subsidies related to assets, including non-monetary grants at fair value are deducted at arriving at the carrying value of the asset (or are deferred in the Balance Sheet and credited to the Income Statement over the useful life of the asset).

### 2.3.16 Impairment of Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate

of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are collaborated by valuation multiples, quoted share prices or other available fair value indicators.

Impairment losses of continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 'exceed' the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset

is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

#### **Goodwill**

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Company performs its annual impairment test of goodwill as at 31st December.

#### **Intangible Assets**

Intangible assets with indefinite useful lives are tested for impairment annually as of 31st December either individually or at the cash-generating unit level, as appropriate.

#### **2.3.17 Income Statement**

##### **Revenue Recognition**

##### *(a) Sale of Goods*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

*(b) Interest*

Interest Income is recognised as the interest accrued (taking into account the effective yield on the asset) unless collectibility is in doubt.

*(c) Dividends*

Dividend income is recognised on a cash basis.

*(d) Rental income*

Rental income is recognised on an accrual basis.

*(e) Royalties*

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

*(f) Others*

Other income is recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of property, plant & equipment and other non-current assets including investments have been accounted for in the Income Statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued property, plant & equipment, amount remaining in Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit/(Loss).

Gains and losses arising from incidental activities to main revenue-generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

**Expenditure Recognition**

*(a)* Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

*(b)* For the purpose of presentation of the Income Statement the Directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance and hence such presentation method is adopted.

### 3. REVENUE

#### 3.1 Summary

Year ended 31st December	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Sale of Goods</b>				
Tea	2,451,106,300	2,186,792,359	2,451,106,300	2,186,792,359
Rubber	20,832,605	21,839,755	20,832,605	21,839,755
Mini Hydro Power	–	–	77,874,791	16,318,949
Others	29,292,000	32,294,481	37,998,453	39,134,599
	<b>2,501,230,905</b>	<b>2,240,926,595</b>	<b>2,587,812,149</b>	<b>2,264,085,662</b>

#### 3.2 Segment Information

##### (a) Segment Revenue

###### Tea

Revenue	2,451,106,300	2,186,792,359	2,451,106,300	2,186,792,359
Revenue expenditure	(1,985,130,613)	(1,718,209,916)	(1,985,130,613)	(1,718,209,916)
Depreciation	(109,138,798)	(92,522,920)	(109,138,798)	(92,522,920)
Other non-cash expenditure	(214,336,000)	(125,277,467)	(214,336,000)	(125,277,467)
Segment results	<b>142,500,889</b>	<b>250,782,056</b>	<b>142,500,889</b>	<b>250,782,056</b>

###### Rubber

Revenue	20,832,605	21,839,755	20,832,605	21,839,755
Revenue expenditure	(17,429,966)	(14,235,648)	(17,429,966)	(14,235,648)
Depreciation	(1,765,411)	(1,765,411)	(1,765,411)	(1,765,411)
Other non-cash expenditure	–	–	–	–
Segment results	<b>1,637,228</b>	<b>5,838,696</b>	<b>1,637,228</b>	<b>5,838,696</b>

###### Mini Hydro Power

Revenue	–	–	77,874,791	16,318,949
Revenue expenditure	–	–	(3,024,769)	(7,292,806)
Depreciation	–	–	(11,871,013)	(4,696,129)
Other non-cash expenditure	–	–	–	–
Segment results	–	–	<b>62,979,009</b>	<b>4,330,014</b>

###### Unallocated

Revenue	29,292,000	32,294,481	37,998,453	39,134,599
Revenue expenditure	–	–	–	–
Depreciation	–	–	–	–
Other non-cash expenditure	–	–	–	–
Segment results	<b>29,292,000</b>	<b>32,294,481</b>	<b>37,998,453</b>	<b>39,134,599</b>

NOTES TO THE FINANCIAL STATEMENTS

<i>Year ended 31st December</i>	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Total</b>				
Revenue	2,501,230,905	2,240,926,595	2,587,812,149	2,264,085,662
Revenue expenditure	(2,002,560,579)	(1,732,445,564)	(2,005,585,348)	(1,739,738,370)
Depreciation	(110,904,209)	(94,288,331)	(122,775,222)	(98,984,460)
Other non-cash expenditure	(214,336,000)	(125,277,467)	(214,336,000)	(125,277,467)
Segment results	173,430,117	288,915,233	245,115,579	300,085,365
Other income	38,957,689	41,870,973	38,690,633	42,105,588
Unallocated expenses	(76,975,313)	(84,488,042)	(96,420,947)	(80,828,745)
Management fees	(14,144,785)	(19,583,723)	(14,144,785)	(19,583,723)
Finance cost	(140,376,579)	(114,316,293)	(201,128,365)	(129,820,721)
Operating profit of the Company	(19,108,871)	112,398,148	(27,887,885)	111,957,764
 <b>(b) Segment Assets</b>				
<b>Non-Current Assets</b>				
Tea	2,392,765,460	2,267,454,507	2,392,765,460	2,267,454,507
Rubber	65,255,821	59,302,654	65,255,821	59,302,654
Mini Hydro Power	-	-	465,580,848	455,495,376
Unallocated	65,790,000	65,790,000	-	-
	2,523,811,281	2,392,547,161	2,923,602,129	2,782,252,537
 <b>Current Assets</b>				
Tea	759,370,776	569,224,323	759,370,776	569,224,323
Rubber	3,333,211	1,107,092	3,333,211	1,107,092
Mini Hydro Power	-	-	(44,781,373)	(31,630,061)
Unallocated	-	-	-	-
	762,703,987	570,331,415	717,922,615	538,701,354
<b>Total assets</b>	3,286,515,268	2,962,878,576	3,641,524,744	3,320,953,891

Year ended 31st December	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>(c) Segment Liabilities</b>				
<b>Non-Current Liabilities and Deferred Income</b>				
Tea	1,730,210,944	1,355,120,385	1,730,210,944	1,355,120,385
Rubber	-	-	-	-
Mini Hydro Power	-	-	231,113,103	244,273,945
	1,730,210,944	1,355,120,385	1,961,324,047	1,599,394,330
<b>Current Liabilities</b>				
Tea	529,905,745	537,837,764	529,905,745	537,837,764
Rubber	-	-	-	-
Mini Hydro Power	-	-	85,014,967	58,352,520
	529,905,745	537,837,764	614,920,712	596,190,284
<b>Total Liabilities</b>	<b>2,260,116,689</b>	<b>1,892,958,149</b>	<b>2,576,244,759</b>	<b>2,195,584,614</b>
<b>(d) Segment Capital Expenditure</b>				
Cost				
Tea	238,247,733	347,435,357	238,247,733	347,435,357
Rubber	3,920,596	2,032,570	3,920,596	2,032,570
Unallocated	-	-	21,956,490	257,159,872
	242,168,329	349,467,927	264,124,819	606,627,799

#### 4. LEASEHOLD PROPERTY

Leases have been executed for all estates for a period of 53 years. All of these leases are retroactive to 22nd June 1992, the date of formation of the Company. The leasehold right to the land on all of these estates have been taken into the books of the Company on 22nd June 1992 immediately after formation of the Company, in terms of the ruling obtained from the Urgent Issues Task Force (UITF) of The Institute of Chartered Accountants of Sri Lanka. For this purpose the Board decided at its meeting on 8th March 1995 that this bare land would be revalued at the value established for this land by valuation specialist, Mr. D R Wickramasinghe just prior to the formation of the Company.

The abovementioned leasehold right to bare land comprising of land use rights obtained on a long-term basis is reclassified as leasehold property and stated at the recorded carrying values as at the effective date of Sri Lanka Accounting Standard 19 - 'Leases', in line with revised Ruling of the Urgent Issues Task Force of The Institute of Chartered Accountants of Sri Lanka. Such carrying amounts are amortised over the remaining lease term or useful life of the leased property whichever is shorter. The leasehold right to land is disclosed under non-current assets under leasehold property. The revised UITF ruling does not permit



further revaluation of leasehold property. The values taken into the 22nd June 1992, Balance Sheet and amortisation of the leasehold property up to 31st December 2009, are as follows:

	Revaluation* as at 22.06.1992 Rs.	Additions for the year Rs.	Company Disposals during the year Rs.	Balance as at 31.12.2009 Rs.	Balance as at 31.12.2008 Rs.	Revaluation as at 22.06.1992 Rs.	Additions for the year Rs.	Group Disposals during the year Rs.	Balance as at 31.12.2009 Rs.	Balance as at 31.12.2008 Rs.
Leasehold property	218,203,052	–	–	218,203,052	218,203,052	218,203,052	–	–	218,203,052	218,203,052
	218,203,052	–	–	218,203,052	218,203,052	218,203,052	–	–	218,203,052	218,203,052

	Accumulated Amortisation Rs.	Amortisation for the year Rs.	Company Transfers during the year Rs.	Balance as at 31.12.2009 Rs.	Balance as at 31.12.2008 Rs.	Accumulated Amortisation Rs.	Amortisation for the year Rs.	Group Transfers during the year Rs.	Balance as at 31.12.2009 Rs.	Balance as at 31.12.2008 Rs.
Amortisation	65,872,621	4,117,037	–	69,989,658	65,872,621	65,872,621	4,117,037	–	69,989,658	65,872,621
	65,872,621	4,117,037	–	69,989,658	65,872,621	65,872,621	4,117,037	–	69,989,658	65,872,621
<b>Written down value</b>				<b>148,213,394</b>	<b>152,330,431</b>				<b>148,213,394</b>	<b>152,330,431</b>

The leasehold property is being amortised by equal amounts over a 53-year period and the unexpired period of the lease as at the Balance Sheet date is 35 years.

\* Revaluation amount is arrived at after adjusting for assets handed over to Tea Smallholdings Development Authority.

## 5. IMMOVABLE ESTATE ASSETS ON FINANCE LEASE (OTHER THAN BARE LAND)

In terms of the ruling of the UITF of The Institute of Chartered Accountants of Sri Lanka all immovable assets in these estates under finance leases have been taken into the books of the Company retroactive to 22nd June 1992. For this purpose the Board decided at its meeting on 8th March 1995 that these assets would be taken at their book values as they appear in the books of the SLSPC, on the day immediately preceding the date of formation of the Company. These assets are taken into the 22nd June 1992 Balance Sheet and the amortisation of immovable estate assets to 31st December 2009 are as follows:

	Improvement to Land Rs.	Mature Plantations Rs.	Company Buildings Rs.	Plant & Machinery Rs.	Total Rs.	Improvement to Land Rs.	Mature Plantations Rs.	Group Buildings Rs.	Plant & Machinery Rs.	Total Rs.
* Revaluation as at 22.06.1992	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813
<b>Cost/Revaluation as at 31.12.2009</b>	<b>9,083,597</b>	<b>243,838,242</b>	<b>63,826,020</b>	<b>12,006,954</b>	<b>328,754,813</b>	<b>9,083,597</b>	<b>243,838,242</b>	<b>63,826,020</b>	<b>12,006,954</b>	<b>328,754,813</b>
Accumulated amortisation as at 01.01.2009	4,842,857	114,201,452	40,848,653	12,006,954	171,899,916	4,842,857	114,201,452	40,848,653	12,006,954	171,899,916
Amortisation for the year	302,786	8,127,941	2,554,413	–	10,985,140	302,786	8,127,941	2,554,413	–	10,985,140
<b>Accumulated amortisation as at 31.12.2009</b>	<b>5,145,643</b>	<b>122,329,393</b>	<b>43,403,066</b>	<b>12,006,954</b>	<b>182,885,056</b>	<b>5,145,643</b>	<b>122,329,393</b>	<b>43,403,066</b>	<b>12,006,954</b>	<b>182,885,056</b>
Written down value as at 31.12.2009	3,937,954	121,508,849	20,422,954	–	145,869,757	3,937,954	121,508,849	20,422,954	–	145,869,757
<b>Written down value as at 31.12.2008</b>	<b>4,240,740</b>	<b>129,636,790</b>	<b>22,977,367</b>	<b>–</b>	<b>156,854,897</b>	<b>4,240,740</b>	<b>129,636,790</b>	<b>22,977,367</b>	<b>–</b>	<b>156,854,897</b>

These assets are being amortised in equal annual amounts over the following periods:

Mature plantations/improvement to land	30 years
Buildings	25 years
Machinery	15 years

\*Revaluation amount is arrived at after adjusting for assets handed over to Tea Smallholdings Development Authority.

## 6. (A) TANGIBLE ASSETS OTHER THAN IMMATURE/MATURE PLANTATIONS

	Company			Group				
	Balance as at 01.01.2009	Additions for the year	Disposals during the year	Balance as at 31.12.2009	Balance as at 01.01.2009	Additions for the year	Disposals during the year	Balance as at 31.12.2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>								
Buildings	288,915,853	49,267,763	–	338,183,616	288,915,853	49,267,763	–	338,183,616
Motor vehicles	75,814,780	14,129,280	–	89,944,060	75,814,780	14,129,280	–	89,944,060
Plant & machinery	396,581,762	37,141,513	–	433,723,275	846,088,449	52,479,418	–	898,567,867
Furniture & fittings	6,392,403	899,725	–	7,292,128	6,392,403	779,725	–	7,172,128
Equipment & tools	55,754,260	2,292,560	–	58,046,820	55,754,260	2,412,560	–	58,166,820
	823,459,058	103,730,841	–	927,189,899	1,272,965,745	119,068,746	–	1,392,034,491

	Balance as at 01.01.2009	Charge for the year	Accumulated Depreciation on Disposals	Balance as at 31.12.2009	Balance as at 01.01.2009	Charge for the year	Accumulated Depreciation on Disposals	Balance as at 31.12.2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	<b>Depreciation</b>							
Buildings	37,014,039	7,700,640	–	44,714,679	37,014,039	7,700,640	–	44,714,679
Motor vehicles	60,669,322	7,625,949	–	68,295,271	60,669,322	7,625,949	–	68,295,271
Plant & machinery	188,947,458	27,527,221	–	216,474,679	198,964,047	39,398,234	–	238,362,281
Furniture & fittings	4,153,127	433,474	–	4,586,601	4,153,127	433,474	–	4,586,601
Equipment	41,273,120	5,976,937	–	47,250,057	41,273,120	5,976,937	–	47,250,057
	332,057,066	49,264,221	–	381,321,287	342,073,650	61,135,234	–	403,208,889
<b>Written down value</b>	491,401,992			545,868,612	930,892,095			988,825,602

### Assets Acquired on Finance Lease

	Balance as at 01.01.2009	Additions during the year	Disposals during the year	Balance as at 31.12.2009	Balance as at 01.01.2009	Additions during the year	Disposals during the year	Balance as at 31.12.2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	<b>Cost</b>							
Motor vehicles	17,368,193	–	–	17,368,193	17,368,193	–	–	17,368,193
Plant & machinery	32,324,815	–	–	32,324,815	32,324,815	–	–	32,324,815
Equipment & tools	1,857,110	–	–	1,857,110	1,857,110	–	–	1,857,110
	51,550,118	–	–	51,550,118	51,550,118	–	–	51,550,118

NOTES TO THE FINANCIAL STATEMENTS

	Balance as at 01.01.2009 Rs.	Charge for the year Rs.	Accumulated Depreciation on Disposals Rs.	Balance as at 31.12.2009 Rs.	Balance as at 01.01.2009 Rs.	Charge for the year Rs.	Accumulated Depreciation on Disposals Rs.	Balance as at 31.12.2009 Rs.
<b>Depreciation</b>								
Motor vehicles	17,368,193	–	–	17,368,193	17,368,193	–	–	17,368,193
Plant & machinery	26,586,328	2,486,524	–	29,072,852	26,586,328	2,486,524	–	29,072,852
Equipment & tools	1,857,110	–	–	1,857,110	1,857,110	–	–	1,857,110
	45,811,631	2,486,524	–	48,298,155	45,811,631	2,486,524	–	48,298,155
<b>Written down value</b>	5,738,487			3,251,963	5,738,487			3,851,963

	Balance as at 01.01.2009 Rs.	Additions for the year Rs.	Capitalised during the year Rs.	Balance as at 31.12.2009 Rs.	Balance as at 01.01.2009 Rs.	Additions for the year Rs.	Capitalised during the Year Rs.	Balance as at 31.12.2009 Rs.
Capital work-in-progress	120,125,330	71,292,649	(114,501,303)	76,916,676	120,125,330	78,151,807	(114,501,303)	83,775,834
Total written down value	617,265,809			626,037,251	1,056,755,912			1,075,853,399

**Note:** The assets shown above are those movable assets vested in the Company by Gazette Notification at the date of formation of the Company (22nd June 1992) and all investments in tangible assets by the Company since its formation. The assets taken over by way of estate leases are set out in Notes 4 and 5.

## 6. (B) IMMATURE/MATURE PLANTATIONS

	Permanent land Development Cost Rs.	Roads Rs.	Company Immature Plantations Rs.	Mature Plantations Rs.	Total Rs.	Permanent land Development Cost Rs.	Roads Rs.	Group Immature Plantations Rs.	Mature Plantations Rs.	Total Rs.
<b>Cost</b>										
*At the beginning of the year	18,091,606	50,594,185	413,396,431	1,076,450,668	1,558,532,890	18,091,606	50,594,185	413,396,431	1,076,450,668	1,558,532,890
Additions	1,534,979	8,603,915	171,507,249	107,541,228	289,187,371	1,534,979	8,603,915	171,507,249	107,541,228	289,187,371
Transfers	–	–	(107,541,228)	–	(107,541,228)	–	–	(107,541,228)	–	(107,541,228)
At the end of the year	19,626,585	59,198,100	477,362,452	1,183,991,896	1,740,179,033	19,626,585	59,198,100	477,362,452	1,183,991,896	1,740,179,033
<b>Depreciation</b>										
*At the beginning of the year	5,260,002	–	–	152,966,864	158,226,866	5,260,002	–	–	152,966,864	158,226,866
Charge for the year	617,253	10,118,837	–	33,315,198	44,051,288	617,253	10,118,837	–	33,315,198	44,051,288
At the end of the year	5,877,255	10,118,837	–	186,282,062	202,278,154	5,877,255	10,118,837	–	186,282,062	202,278,153
<b>Written down value</b>										
as at 31.12.2009	13,749,330	49,079,263	477,362,452	997,709,834	1,537,900,879	13,749,330	49,079,263	477,362,452	997,709,834	1,537,900,879
Written down value as at 31.12.2008	12,831,604	50,594,185	413,396,431	923,483,804	1,400,306,024	12,831,604	50,594,185	413,396,431	923,483,804	1,400,306,024

\* The figures above are stated after adjusting for assets handed over to Tea Smallholdings Development Authority.

**Note:** These are investments in immature/mature plantations since the formation of the Company. The assets (including plantation assets) taken over by way of estate leases are set out in Notes 4 and 5. Further investment in immature plantations taken over by way of these leases are shown in the above note. When such plantations become mature, the additional investments since take over to bring them to maturity, will be moved from immature to mature under this note.

## 6. (C) INVESTMENTS

Talawakelle Tea Estates PLC holds 3,519,000 (51%) ordinary shares of TTEL Hydro Power Company (Private) Limited and 3,060,000 (51%) ordinary shares of TTEL Somerset Hydro Power (Private) Limited. The investments made in each company are as follows:

Year ended 31st December	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
TTEL Hydro Power Company (Private) Limited	35,190,000	35,190,000	–	–
TTEL Somerset Hydro Power (Private) Limited	30,600,000	30,600,000	–	–
	<b>65,790,000</b>	<b>65,790,000</b>	<b>–</b>	<b>–</b>

## 7. INVENTORIES

Growing crop - nurseries	25,858,849	21,812,416	25,858,849	21,812,416
Harvested crop	311,708,945	291,474,025	311,708,945	291,474,025
Input stocks, consumables & spares	24,184,651	46,661,098	24,184,651	46,661,098
	<b>361,752,445</b>	<b>359,947,539</b>	<b>361,752,445</b>	<b>359,947,539</b>

## 8. TRADE AND OTHER RECEIVABLES

Produce debtors	47,982,774	3,236,775	70,663,849	3,236,775
Advances & prepayments	42,236,809	36,730,445	44,107,376	36,730,445
Other debtors	36,756,137	44,669,758	37,749,529	66,666,377
	<b>126,975,720</b>	<b>84,636,978</b>	<b>152,520,754</b>	<b>106,633,597</b>

## 9. AMOUNTS DUE FROM RELATED COMPANIES

Year ended 31st December	Relationship	Company		Group	
		2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
Hayleys Plantation Services (Private) Limited	Parent Enterprise	1,959,132	–	1,959,132	–
Hayleys Industrial Solution (Private) Limited	Group Company	2,023,700	3,500,000	–	–
TTEL Somerset Hydro Power (Private) Limited	Group Company	26,212,726	11,600,000	–	–
TTEL Hydro Power Company (Private) Limited	Group Company	47,563,657	38,526,680	–	–
		<b>77,759,215</b>	<b>53,626,680</b>	<b>1,959,132</b>	<b>–</b>

## 10. SHORT-TERM INVESTMENT

<i>Year ended 31st December</i>	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
Acuity Securities Limited	19,999,999	6,000,000	19,999,999	6,000,000
Trust Investment in Mercantile Investments Limited	–	2,900,000	–	2,900,000
Trust Investment in People's Leasing Company Limited	–	10,000,000	–	10,000,000
Sampath Bank	25,000,000	–	25,000,000	–
NDB	12,000,000	–	12,000,000	–
DFCC Vardhana Bank	91,792,881	–	91,792,881	–
	<b>148,792,880</b>	<b>18,900,000</b>	<b>148,792,880</b>	<b>18,900,000</b>

## 11. STATED CAPITAL

<b>Issued and Fully Paid Stated Capital</b>				
Number of Ordinary Shares including one Golden Share held				
by the Treasury which has special rights	23,750,001	23,750,001	23,750,001	23,750,001
Stated Capital including one Golden Share held by				
the Treasury which has special rights	350,000,010	350,000,010	350,000,010	350,000,010

Stated capital represents the amount paid to the Company in respect of issuing 23,750,000 Ordinary Shares and one Golden Share which has special rights. With the enactment of the Companies Act No. 07 of 2007 which is applicable with effect from 3rd May 2007, the concept of authorised share capital and par value is no longer applicable.

## 12. MINORITY INTEREST

<i>Year ended 31st December</i>	Group	
	2009 Rs.	2008 Rs.
TTEL Hydro Power Company (Private) Limited	27,782,696	31,803,094
TTEL Somerset Hydro Power (Private) Limited	26,593,293	30,690,943
	<b>54,375,989</b>	<b>62,494,037</b>

### 13. INTEREST BEARING LOANS AND BORROWINGS

	2009					2008				
	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2009	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2008
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Company</b>										
13.1 National Development Bank	21,908,720	242,579,046	200,727,827	443,306,873	465,215,593	21,908,720	123,110,109	126,070,581	249,180,690	271,089,410
13.2 Sampath Bank	13,471,992	41,050,415	94,583,402	135,633,817	149,105,809	13,471,992	49,522,415	99,583,394	149,105,809	162,577,801
13.3 Hatton National Bank	-	-	-	-	-	-	-	-	-	-
13.4 Commercial Bank	5,236,491	9,351,771	-	9,351,771	14,588,262	7,195,580	14,467,173	-	14,467,173	21,662,753
13.5 Indian Bank	57,600,000	16,000,000	-	16,000,000	73,600,000	12,600,000	-	-	-	12,600,000
13.6 Finance Leases	-	-	-	-	-	24,212	-	-	-	24,212
	98,217,203	308,981,232	295,311,229	604,292,461	702,509,664	55,200,504	187,099,697	225,653,975	412,753,672	467,954,176
<b>Group</b>										
13.1 National Development Bank	21,908,720	242,579,046	200,727,827	443,306,873	465,215,593	21,908,720	123,110,109	126,070,581	249,180,690	271,089,410
13.2 Sampath Bank	20,086,992	113,815,415	147,503,402	261,318,817	281,405,809	21,740,742	115,672,415	149,746,503	265,418,918	287,159,660
13.3 Hatton National Bank	18,249,600	64,382,220	30,352,000	94,734,220	112,983,820	4,358,496	14,660,724	110,274,340	124,935,064	129,293,560
13.4 Commercial Bank	5,236,491	9,351,771	-	9,351,771	14,588,262	7,195,580	14,467,173	-	14,467,173	21,662,753
13.5 Indian Bank	57,600,000	16,000,000	-	16,000,000	73,600,000	12,600,000	-	-	-	12,600,000
13.6 Finance Leases	-	-	-	-	-	24,212	-	-	-	24,212
	123,081,803	446,128,452	378,583,229	824,711,681	947,793,484	67,827,750	267,910,421	386,091,424	654,001,845	721,829,595

### 13.1 Long-Term Loans

	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2009	Total as at 31.12.2008	Rate of Interest	Terms of Repayment
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	%	
<b>Company</b>								
<b>National Development Bank</b>								
<b>Field Development</b>								
1st disbursement	5,570,532	17,640,018	–	17,640,018	23,210,550	28,781,082	11.78	120 monthly instalments commencing from April 2004.
2nd disbursement	6,140,528	24,562,113	5,628,812	30,190,925	36,331,453	42,471,982	12.53	120 monthly instalments commencing from January 2006.
3rd disbursement	1,813,332	7,253,328	4,382,219	11,635,547	13,448,879	15,262,211	12.51	120 monthly instalments commencing from May 2007.
4th disbursement	–	46,807,145	46,807,145	93,614,290	93,614,290	93,614,290	9.42	96 monthly instalments commencing from January 2011.
5th disbursement	–	73,578,371	73,578,371	147,156,742	147,156,742	–	9.42	96 monthly instalments commencing from January 2011.
<b>Process Development</b>								
1st disbursement	3,632,124	11,501,726	–	11,501,726	15,133,850	18,765,974	11.78	120 monthly instalments commencing from April 2004.
2nd disbursement	2,646,744	10,586,976	4,190,678	14,777,654	17,424,398	20,071,142	12.53	120 monthly instalments commencing from August 2006.
3rd disbursement	–	27,717,028	41,575,541	69,292,569	69,292,569	19,630,204	13.07	60 monthly instalments commencing from October 2013.
4th disbursement	–	3,964,305	5,946,456	9,910,761	9,910,761	2,137,542	13.07	60 monthly instalments commencing from October 2013.
5th disbursement	–	6,000,000	9,000,000	15,000,000	15,000,000	12,806,255	13.07	60 monthly instalments commencing from October 2013.
6th disbursement	–	3,222,456	4,833,683	8,056,139	8,056,139	5,107,306	13.07	60 monthly instalments commencing from October 2013.
7th disbursement	–	2,520,000	3,780,000	6,300,000	6,300,000	–	13.07	60 monthly instalments commencing from October 2013.
<b>Vehicle &amp; Equipment</b>								
1st disbursement	1,435,512	4,545,788	–	4,545,788	5,981,300	7,416,812	11.78	120 monthly instalments commencing from April 2004.
2nd disbursement	669,948	2,679,792	1,004,922	3,684,714	4,354,662	5,024,610	12.53	120 monthly instalments commencing from July 2006.
	21,908,720	242,579,046	200,727,827	443,306,873	465,215,593	271,089,410		
<b>Group</b>								
<b>National Development Bank</b>								
<b>Field Development</b>								
1st disbursement	5,570,532	17,640,018	–	17,640,018	23,210,550	28,781,082	11.78	120 monthly instalments commencing from April 2004.
2nd disbursement	6,140,528	24,562,113	5,628,812	30,190,925	36,331,453	42,471,982	12.53	120 monthly instalments commencing from January 2006.
3rd disbursement	1,813,332	7,253,328	4,382,219	11,635,547	13,448,879	15,262,211	12.51	120 monthly instalments commencing from May 2007.
4th disbursement	–	46,807,145	46,807,145	93,614,290	93,614,290	93,614,290	9.42	96 monthly instalments commencing from January 2011
5th disbursement	–	73,578,371	73,578,371	147,156,742	147,156,742	–	9.42	96 monthly instalments commencing from January 2011
<b>Process Development</b>								
1st disbursement	3,632,124	11,501,726	–	11,501,726	15,133,850	18,765,974	11.78	120 monthly instalments commencing from April 2004.
2nd disbursement	2,646,744	10,586,976	4,190,678	14,777,654	17,424,398	20,071,142	12.53	120 monthly instalments commencing from August 2006.
3rd disbursement	–	27,717,028	41,575,541	69,292,569	69,292,569	19,630,204	13.07	60 monthly instalments commencing from October 2013.
4th disbursement	–	3,964,305	5,946,456	9,910,761	9,910,761	2,137,543	13.07	60 monthly instalments commencing from October 2013.
5th disbursement	–	6,000,000	9,000,000	15,000,000	15,000,000	12,806,255	13.07	60 monthly instalments commencing from October 2013.
6th disbursement	–	3,222,456	4,833,683	8,056,139	8,056,139	5,107,306	13.07	60 monthly instalments commencing from October 2013.
7th disbursement	–	2,520,000	3,780,000	6,300,000	6,300,000	–	13.07	60 monthly instalments commencing from October 2013.
<b>Vehicle &amp; Equipment</b>								
1st disbursement	1,435,512	4,545,788	–	4,545,788	5,981,300	7,416,812	11.78	120 monthly instalments commencing from April 2004.
2nd disbursement	669,948	2,679,792	1,004,922	3,684,714	4,354,662	5,024,610	12.53	120 monthly instalments commencing from July 2006.
	21,908,720	242,579,046	200,727,827	443,306,873	465,215,593	271,089,411		

### 13.2 Sampath Bank

	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2009	Total as at 31.12.2008	Rate of Interest	Terms of Repayment
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	%	
<b>Company</b>								
Replanting Loan	4,999,992	19,999,968	7,083,402	27,083,370	32,083,362	37,083,354	12.5	120 monthly instalments commencing from June 2006.
Replanting Loan	–	12,500,000	87,500,000	100,000,000	100,000,000	100,000,000	AWDR+4	96 monthly instalments commencing from July 2010.
Loans for Boiler Units	2,124,000	688,000	–	688,000	2,812,000	4,936,000	6.50	60 monthly instalments commencing from May 2006.
Dendro Project	6,348,000	7,862,447	–	7,862,447	14,210,447	20,558,447	AWPLR+2	60 monthly instalments commencing from July 2007.
	<u>13,471,992</u>	<u>41,050,415</u>	<u>94,583,402</u>	<u>135,633,817</u>	<u>149,105,809</u>	<u>162,577,801</u>		
<b>Group</b>								
Replanting Loan	4,999,992	19,999,968	7,083,402	27,083,370	32,083,362	37,083,354	12.5	120 monthly instalments commencing from June 2006.
Replanting Loan	–	12,500,000	87,500,000	100,000,000	100,000,000	100,000,000	AWDR+4	96 monthly instalments commencing from July 2010.
Loans for Boiler Units	2,124,000	688,000	–	688,000	2,812,000	4,936,000	6.50	59 monthly instalments commencing from May 2006.
Dendro Project	6,348,000	7,862,447	–	7,862,447	14,210,447	20,558,447	AWPLR+2	60 monthly instalments commencing from July 2007.
Mini Hydro	6,615,000	72,765,000	52,920,000	125,685,000	132,300,000	124,581,859	AWDR+5	96 monthly instalments commencing from July 2009.
	<u>20,086,992</u>	<u>113,815,415</u>	<u>147,503,402</u>	<u>261,318,817</u>	<u>281,405,809</u>	<u>287,159,660</u>		

### 13.3 Hatton National Bank

#### Company

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#### Group

Mini Hydro - Radella	4,251,600	8,390,220	–	8,390,220	12,641,820	19,019,220	AWDR+4	96 monthly instalments commencing from February 2005.
Mini Hydro - Somerset	13,998,000	55,992,000	30,352,000	86,344,000	100,342,000	110,274,340	AWDR+4	96 monthly instalments commencing from August 2008.
	<u>18,249,600</u>	<u>64,382,220</u>	<u>30,352,000</u>	<u>94,734,220</u>	<u>112,983,820</u>	<u>129,293,560</u>		

### 13.4 Commercial Bank

#### Company

Vehicle Loan	–	–	–	–	–	1,838,000	AWPLR + 1	48 monthly instalments commencing from June 2005.
Loans for Boiler Units	2,636,491	4,368,438	–	4,368,438	7,004,929	9,641,420	6.50	60 monthly instalments commencing from September 2007.
E-Friends - ii Scheme	2,600,000	4,983,333	–	4,983,333	7,583,333	10,183,333	6.50	60 monthly instalments commencing from December 2007.
	<u>5,236,491</u>	<u>9,351,771</u>	<u>–</u>	<u>9,351,771</u>	<u>14,588,262</u>	<u>21,662,753</u>		

#### Group

Vehicle Loan	–	–	–	–	–	1,838,000	AWPLR + 1	48 monthly instalments commencing from June 2005.
Loans for Boiler Units	2,636,491	4,368,438	–	4,368,438	7,004,929	9,641,420	6.50	60 monthly instalments commencing from September 2007.
E-Friends - ii Scheme	2,600,000	4,983,333	–	4,983,333	7,583,333	10,183,333	6.50	60 monthly instalments commencing from December 2007.
	<u>5,236,491</u>	<u>9,351,771</u>	<u>–</u>	<u>9,351,771</u>	<u>14,588,262</u>	<u>21,662,753</u>		



### 13.5 Indian Bank

	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2009	Total as at 31.12.2008	Rate of Interest	Terms of Repayment
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	%	
<b>Company</b>								
<b>1st disbursement</b>	–	–	–	–	–	12,600,000	TB+2	24 monthly instalments commencing from April 2007.
<b>2nd disbursement</b>	57,600,000	16,000,000	–	16,000,000	<b>73,600,000</b>	–	AWPLR+1.5	24 monthly instalments commencing from April 2009.
	57,600,000	16,000,000	–	16,000,000	<b>73,600,000</b>	12,600,000		
<b>Group</b>								
<b>1st disbursement</b>	–	–	–	–	–	12,600,000	TB+2	24 monthly instalments commencing from April 2007.
<b>2nd disbursement</b>	57,600,000	16,000,000	–	16,000,000	<b>73,600,000</b>	–	AWPLR+1.5	24 monthly instalments commencing from April 2009.
	57,600,000	16,000,000	–	16,000,000	<b>73,600,000</b>	12,600,000		

### 13.6 Finance Lease

#### Company

Hatton National Bank

Gross Liability	–	–	–	–	–	24,440
Finance Charges	–	–	–	–	–	(228)
Net Liability	–	–	–	–	–	24,212

#### Group

Hatton National Bank

Gross Liability	–	–	–	–	–	24,440
Finance Charges	–	–	–	–	–	(228)
Net Liability	–	–	–	–	–	24,212

### 14. SHORT-TERM BORROWINGS

#### Company

Commercial Bank of

Ceylon PLC	50,000,000	–	–	–	<b>50,000,000</b>	22,000,000	} Prevailing money market rates
Hatton National Bank	–	–	–	–	–	–	
Hongkong and Shanghai Banking Corporation	–	–	–	–	–	33,000,000	
Packing Credit Loan	8,193,150	–	–	–	<b>8,193,150</b>	–	
	58,193,150	–	–	–	<b>58,193,150</b>	55,000,000	

#### Group

Commercial Bank

of Ceylon PLC	50,000,000	–	–	–	<b>50,000,000</b>	22,000,000	} Prevailing money market rates
Hatton National Bank	–	–	–	–	–	–	
Hongkong and Shanghai Banking Corporation	–	–	–	–	–	33,000,000	
Packing Credit Loan	8,193,150	–	–	–	<b>8,193,150</b>	–	
	58,193,150	–	–	–	<b>58,193,150</b>	55,000,000	

## 15. REDEEMABLE DEBENTURES

	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
Redeemable debentures	95,000,000	95,000,000	95,000,000	95,000,000
	95,000,000	95,000,000	95,000,000	95,000,000

9.5 million redeemable debentures of Rs. 10/- each at 13.08% amounting to Rs. 95 million was issued in favour of the Plantation Trust Fund in November 2008 and are redeemable in 2014 as per the terms and conditions in the Debenture Agreements: 2014A, 2014B, 2014C & 2014D, which includes a requirement of the Company to cause the holding company to enter into a Buy-Back Agreement in the event of default and the right to require the Company to convert the debentures into ordinary shares of the Company as determined in the said Agreement.

## 16. RETIRING BENEFIT OBLIGATIONS

	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Provision for Retiring Gratuity</b>				
At the beginning of the year	490,804,032	403,161,031	490,804,032	403,161,031
Provisions for the year	214,337,000	125,277,467	214,337,000	125,277,467
Payments for the year	(40,616,851)	(37,634,466)	(40,616,851)	(37,634,466)
At the end of the year	664,524,181	490,804,032	664,524,181	490,804,032

According to the actuarial valuation carried out as at 31st December 2009, the actuarial present value of promised retirement benefits amounted to Rs. 664,524,181/-. If the Company had provided for gratuity on the basis of 14 days wages and half a month's salary for each completed year of service, the liability would have been Rs. 717,985,687/-. Hence, there is a contingent liability of Rs. 53,461,506/-, which would crystallise only if the Company ceases to be a going concern. The effect of change of actuarial assumptions amounted to Rs. 163,747,336/-. The provision for the year includes the current service cost, interest cost, past service costs and net of actuarial gains and losses which are disclosed under cost of sales and administrative expenses.

## 17. DEFERRED INCOME

<i>For the year ended 31st December</i>	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Deferred Grants and Subsidies</b>				
Balance at the beginning of the year	197,917,065	131,122,114	197,917,065	131,122,114
Add: Grants received during the year	28,863,719	71,500,116	28,863,719	71,500,116
Less: Amortisation for the year	(4,844,751)	(4,705,165)	(4,844,751)	(4,705,165)
Balance at the end of the year	221,936,033	197,917,065	221,936,033	197,917,065

The Company has received funding from the Plantation Housing and Social Welfare Trust and Plantation Development Project (PDP) for the development of workers' facilities such as re-roofing of line rooms, latrines, water supply and sanitation, etc. The amounts spent are included under the relevant classification of property, plant & equipment and the grant component is reflected under Deferred Grants and Subsidies. Further, this includes the C.T.C. Machinery subsidy which represents the funds received from Sri Lanka Tea Board in relation to C.T.C. Project.

#### 18. NET LIABILITY TO THE LESSOR OF SLSPC ESTATES

	Repayable within 1 year Rs.	Repayable after one year		Subtotal Rs.	2009 Total Rs.	2008 Total Rs.
		Repayable after 1 year less than five years Rs.	Repayable after five years Rs.			
<b>Company</b>						
Gross liability	7,225,074	28,900,296	220,176,707	249,077,003	256,302,077	263,527,151
Less: Finance charges	(5,427,506)	(20,961,657)	(94,225,262)	(115,186,919)	(120,614,425)	(126,111,068)
Net liability	1,797,568	7,938,639	125,951,445	133,890,084	135,687,652	137,416,083
<b>Group</b>						
Gross liability	7,225,074	28,900,296	220,176,707	249,077,003	256,302,077	263,527,151
Less: Finance charges	(5,427,506)	(20,961,657)	(94,225,262)	(115,186,919)	(120,614,425)	(126,111,068)
Net liability	1,797,568	7,938,639	125,951,445	133,890,084	135,687,652	137,416,083

The lease of the estates had been amended with effect from 22nd June 1996 to an amount substantially higher than the previous lease rental of Rs. 500/- per estate per annum. The rental payable under the revised basis is Rs. 7.225 million per year. This amount is to be inflated annually by the Gross Domestic Product (GDP) deflator, and it is in the form of a contingent rental. This lease agreement was further amended with effect from 22nd June 2002, to provide relief to the Company by freezing the lease rental at 2002 level for a period of 5 calendar years, from the fiscal years 2003/2004 to 2007/2008. In the event, the Company fails to invest the current year's saving of Rs. 2,167,252/-, which represents the increase which would have resulted by the application of the GDP deflator to the lease rental for 2002, the Company would have to revert back to the previous agreement. Thereafter no agreement has been signed in this respect.

#### 19. TRADE AND OTHER PAYABLES

	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
Trade creditors	108,622,841	99,042,767	120,929,325	123,865,911
Others	142,707,004	103,237,174	137,907,005	98,437,174
Accrued expenses	97,451,120	80,045,686	97,451,120	80,045,686
Income tax payable	–	947,258	–	947,258
	348,780,965	283,272,885	356,287,450	303,296,029

## 20. AMOUNTS DUE TO RELATED COMPANIES

	Relationship	Company		Group	
		2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
Hayleys PLC	Group Company	2,112,634	1,950,304	2,112,634	1,950,304
Hayleys Industrial Solutions (Private) Limited	Subsidiary	–	–	52,643,882	9,599,232
Hayleys Plantation Services (Private) Limited	Parent Enterprise	–	1,273,223	–	1,273,223
		<b>2,112,634</b>	<b>3,223,527</b>	<b>54,756,516</b>	<b>12,822,759</b>

## 21. OTHER INCOME AND GAINS

	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
Sale of trees	1,708,799	23,554,227	1,708,799	23,554,227
Sale of plants	548,749	143,760	548,749	143,760
Interest income	28,317,346	8,758,160	28,317,346	8,992,775
Amortisation of capital grants	4,844,751	4,705,166	4,577,695	4,705,166
Profit on disposal of assets	3,538,044	4,709,660	3,538,044	4,709,660
	<b>38,957,689</b>	<b>41,870,973</b>	<b>38,690,633</b>	<b>42,105,588</b>

## 22. FINANCE COST

Overdraft interest	20,099,038	27,833,293	20,099,817	27,873,507
Short-term loan interest	17,773,376	13,708,684	20,210,513	13,708,684
Interest on Government lease	9,774,305	9,840,779	9,774,305	9,840,779
Lease interest on others	3,161	24,360	3,161	24,360
Term loan interest	80,300,699	61,785,730	138,614,569	77,249,944
Debenture interest	12,426,000	1,123,447	12,426,000	1,123,447
	<b>140,376,579</b>	<b>114,316,293</b>	<b>201,128,365</b>	<b>129,820,721</b>

## 23. PROFIT BEFORE TAX IS STATED AFTER CHARGING

Directors' Emoluments	5,166,000	5,036,000	5,166,000	5,036,000
Key management compensation	12,569,000	12,645,000	12,569,000	12,645,000
Auditors' Fees	1,877,000	1,675,000	2,028,418	1,759,533
Depreciation/amortisation	110,904,209	94,288,331	122,775,222	98,984,460
Defined benefit plan costs	214,336,000	125,277,467	214,336,000	125,277,467
Employees' profit share	–	5,533,704	–	5,533,704
Defined contribution plan costs - EPF & ETF	111,180,767	107,196,811	111,180,767	107,196,811
Others - Staff costs	1,097,881,455	1,005,105,316	1,097,881,455	1,005,105,316
Donations	–	–	–	–

## 24. INCOME TAX EXPENSE

The major components of income tax expenses for the years ended 31st December are as follows:

	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Current Tax Expenses</b>				
Current income tax charges	–	6,920,205	7,788,430	6,920,205
Deferred taxation charge/(reversal)	(12,389,779)	5,145,875	(12,389,779)	7,302,669
Write off of unclaimable ESC	7,115,256	–	7,115,256	–
Reversal of income tax over provision	–	(10,270,985)	–	(10,270,985)
	(5,274,523)	1,795,095	2,513,907	3,951,889

ESC paid in 2005 and 2006 is written-off as the claimable period lapsed. Deferred tax provision has been reduced due to the temporary difference of the tax losses during the period.

### 24.1 Reconciliation between Tax Expenses and the Product of Accounting Profit multiplied by the Statutory Tax Rate (35%) is as Follows:

	Company	
	2009 Rs.	2008 Rs.
Tax effect on accounting profit/(loss) before tax	(6,688,105)	39,339,352
Tax effect on aggregate disallowed items	143,167,741	86,448,958
Tax effect on aggregate allowable items	(122,906,013)	(95,868,144)
	13,573,623	29,920,166
Tax effect on tax loss B/F and utilised	(6,440,357)	(6,440,357)
	7,133,266	23,479,809
Tax effect on exempted profit from agriculture	(16,628,121)	(16,628,121)
	(9,494,855)	6,851,688
SRL @ 1%	–	68,517
Income tax charge/(reversal)	(9,494,855)	6,920,205

## 24.2 Deferred Tax Assets and Liabilities

	Balance Sheet		Income Statement	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Deferred Tax Liability</b>				
Capital allowances for tax purposes	(119,030,521)	(110,661,699)		
	(119,030,521)	(110,661,699)		
<b>Deferred Tax Assets</b>				
Deferred benefit plans	25,579,807	18,827,777		
Tax losses	82,882,529	68,875,958		
	108,462,336	87,703,735		
Deferred taxation charge/(reversal)			(12,389,779)	5,145,875
Net deferred tax liability	(10,568,185)	(22,957,964)		

## 25. EARNINGS PER SHARE

**25.1** The calculation of the basic earnings per share is based on after tax profit for the year divided by the weighted average number of ordinary shares outstanding during the period.

**25.2** The following reflects the income and share data used in the basic earnings per share computations:

	Company		Group	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Amounts used as the Numerator:</b>				
Net profit applicable to ordinary shareholders for basic earnings per share	(13,834,348)	110,603,053	(22,283,744)	109,278,492
	(13,834,348)	110,603,053	(22,283,744)	109,278,492
<b>Amounts used as the Denominator:</b>				
Weighted average number of ordinary shares in issue applicable to basic earnings per share	23,750,001	23,750,001	23,750,001	23,750,001
	23,750,001	23,750,001	23,750,001	23,750,001
<b>Earnings per share</b>	(0.58)	4.66	(0.94)	4.60

## 26. DIVIDENDS PAID AND PROPOSED

Dividend on Ordinary Shares

Declared and paid during the year

Final dividends paid for 2008 at Rs. 1.25 per share	–	29,687,500	–	29,687,500
	–	29,687,500	–	29,687,500
Dividends per share	–	1.25	–	1.25

## 27. ASSETS PLEDGED

Following assets have been pledged as security for liabilities.

Bank	Nature of Assets	Nature of Liability	Carrying Amount Pledged	
			2009 Rs.	2008 Rs.
Hatton National Bank	Primary floating mortgage for Rs. 109 million over leasehold rights of Radella, Palmerstone and Handford Estates.	Term loan, Short-Term Loan & Overdraft	39,833,926	41,927,955
	Absolute ownership of the leased assets	Block Lease Facility		
	Lodgement of 5.5 million shares of TTEL owned by HPSL	Term Loan (BW, LG)		
	Letter of Hypothecation, simple receipts, Lodgement of Export L/C	Packing Credit/Bills		
Sampath Bank	Primary mortgage bond for Rs. 46 million over leasehold rights of Deniyaya Estate & Primary mortgage over stock for Rs. 45 million.	Overdraft	20,980,362	291,474,025
	Primary mortgage over leasehold rights to the value of Rs. 30 million of Clarendon Estate.	Term Loan	27,154,111	28,925,138
	Secondary mortgage over leasehold rights to the value of Rs. 20 million of Deniyaya Estate.			
	Primary mortgage over leasehold rights of Matakelle Estate.	Term Loan	14,721,342	15,475,508
	Primary mortgage bond for Rs. 10.6 million over 3 numbers of Hot Water Generators of Barewell, Holywood and Great Western Estates.	Term Loan	23,777,811	24,955,593
	Primary mortgage bond for Rs. 46 million and Tertiary mortgage bond for Rs. 6.7 million over leasehold right of Deniyaya Estate with buildings thereon situated at Deniyaya. Secondary mortgage bond for Rs. 19 million over leasehold rights of Clarendon Estate with building thereon situated at Nuwara Eliya.	Term Loan	32,069,764	33,791,737
National Development Bank	Primary mortgage over leasehold rights of Somerset, Great Western, Holyrood, Logie and Dessford Estates.	Term Loan	90,812,303	95,432,863
Commercial Bank of Ceylon PLC	Concurrent mortgage over stock in trade and debtors for Rs. 100 million and additional mortgage over stocks and debtors for Rs. 45 million.	Overdraft, Money Market, Export packing/Bill nego guarantee	294,718,134	294,718,134
	Primary mortgage over vehicles bearing WPHS 3257, WPJY 1762, WPJT 4785, WPHA 2354.	Term Loan	2,780,600	–
	Primary mortgage bond for Rs. 13 million over 2 numbers of Hot Water Generators Radella and Wattagoda Estates.	Term Loan	13,918,597	15,310,457
	Primary mortgage bond for Rs. 14 million over 2 numbers of Hot Water Generators Logie and Dessford Estates.	Term Loan	15,800,580	17,176,467
Hongkong & Shanghai Banking Corporation	Concurrent mortgage over stocks and debtors for Rs. 45 million.	Short-Term Loan	359,691,719	294,718,134

## 28. CAPITAL COMMITMENTS

Following are the capital commitments as at the Balance Sheet date:

	2009 Rs. million	2008 Rs. million
Approved by the Board and Contracted for	–	–
Approved by the Board and not Contracted for	150	240
	150	240

## 29. COMMITMENTS AND CONTINGENCIES

No known contingent assets or liabilities exist as at Balance Sheet date other than the matters disclosed in Notes 16 and 18 to the Financial Statements.

## 30. POST BALANCE SHEET EVENTS

There have been no material events occurring after the Balance Sheet date that require adjustments or disclosure in the Financial Statements.

## 31. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

### 31.1 Transactions with the Parent and Related Entities

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts	
				2009 Rs.	2008 Rs.
Hayleys Plantation Services (Pvt) Limited	Parent Enterprise	Mr. A M Pandithage (Appointed w.e.f. 01.07.2009) Mr. N G Wickremeratne (Resigned w.e.f. 30.06.2009) Mr. S T Gunatilleke Mr. Merrill J Fernando Mr. Malik J Fernando Dr. R M Fernando Mr. J M S Brito Mr. M M M De Silva	Managing Agent's Fee	14,144,785	19,583,723
Hayleys PLC	Related Company	Mr. A M Pandithage (Appointed w.e.f. 01.07.2009) Mr. N G Wickremeratne (Resigned w.e.f. 30.06.2009)	Data Processing Services Secretarial Services, Office Rent & Management Salaries	14,767,579	13,633,341
MIT Cargo (Private) Limited	Related Company	Mr. A M Pandithage (Appointed w.e.f. 01.07.2009) Mr. N G Wickremeratne (Resigned w.e.f. 30.06.2009)	Providers of Warehousing Services	1,024,783	638,771
Hayleys Agro Products Limited	Related Company	Mr. A M Pandithage (Appointed w.e.f. 01.07.2009) Mr. N G Wickremeratne (Resigned w.e.f. 30.06.2009) Mr. M M M De Silva	Purchase of Equipment and Chemicals	9,340,518	13,089,732
Hayleys Industrial Solutions (Private) Limited	Related Company	Mr. A M Pandithage (Appointed w.e.f. 01.07.2009) Mr. N G Wickremeratne (Resigned w.e.f. 30.06.2009) Mr. M M M De Silva	Providers of Maintenance Services to Generator	997,026	151,397



Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts	
				2009 Rs.	2008 Rs.
Hayleys Agro Fertilizers (Private) Limited	Related Company	Mr. A M Pandithage (Appointed w.e.f. 01.07.2009) Mr. N G Wickremeratne (Resigned w.e.f. 30.06.2009)	Purchase of Fertiliser	50,295,478	56,477,998
Volanka Insurance Services (Private) Limited	Related Company	Mr. M M M De Silva	Insurance and Brokering Charges	10,750,370	10,314,374
Civaro Lanka (Private) Limited	Related Company	Mr. A M Pandithage (Appointed w.e.f. 01.07.2009) Mr. N G Wickremeratne (Resigned w.e.f. 30.06.2009)	Providers of Freight Services	–	131,685
Global Holidays (Private) Limited	Related Company	Mr. A M Pandithage (Appointed w.e.f. 01.07.2009)	Providers of Air Ticketing Services	662,156	2,831,080
TTEL Hydro Power Company (Private) Limited	Related Company	Mr. A M Pandithage (Appointed w.e.f. 01.07.2009) Mr. S T Gunatilleke Mr. Merrill J Fernando Mr. Malik J Fernando Dr. R M Fernando Mr. J M S Brito Mr. M M M De Silva	Providers of Maintenance Services Loans Granted Inter Company Interest Charges Labour Charges	8,706,453 2,792,947 4,990,500 1,170,947	6,840,118 25,940,000 1,271,793 861,649
TTEL Somerset Hydro Power (Pvt) Limited		Mr. A M Pandithage (Appointed w.e.f. 01.07.2009) Mr. S T Gunatilleke Mr. Merrill J Fernando Mr. Malik J Fernando Dr. R M Fernando Mr. J M S Brito Mr. M M M De Silva	Loans Granted Inter Company Interest Charges Labour Charges	10,574,517 3,377,101 761,102	11,500,000 468,684 275,523

### 31.2 Transactions with the Key Management Personnel of the Company or Parent

There were no material transactions with the Key Management Personnel of the Company and its Parent other than those disclosed in Notes 23 and 31.1 to the Financial Statements.

## 32. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 9, 20 and 31 to the Financial Statements.

### 32.1 Pricing Policies

Purchase of goods and services from related parties were made at normal trading terms under arm's length basis. Management fee has been paid at 5% of earnings before interest, tax, depreciation, amortisation and management fees in accordance with a decision of the Board of Hayleys Plantation Services (Private) Limited.

# TEN YEAR SUMMARY

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Group revenue	2,587,812	2,264,085	1,924,383	1,731,612	1,619,598	1,492,412	1,349,330	1,381,642	1,250,485	1,152,507
Profit before taxation	(27,887)	111,958	113,017	100,272	112,289	142,894	60,322	42,011	91,421	153,057
Taxation	(2,514)	(3,952)	(14,700)	(19,906)	(6,895)	(12,179)	-	-	-	-
Profit after tax	(30,401)	108,006	98,317	80,366	105,394	130,715	60,322	42,011	91,421	153,057
Minority interest	(8,118)	(1,273)	(1,288)	7	-	-	-	-	-	-
Profit attributable to equity holders	(22,283)	109,279	99,605	80,359	105,394	130,715	60,322	42,011	91,421	153,057
Stated capital	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	200,000	200,000
Revenue reserve	660,904	712,875	669,094	569,488	560,133	490,364	377,771	335,117	312,987	251,520
Shareholders' funds	1,010,904	1,062,875	1,019,094	919,488	910,133	840,364	727,771	685,117	512,987	451,520
Minority interest	54,376	62,494	63,595	22,254	-	-	-	-	-	-
Convertible debentures									150,000	150,000
Borrowings (both short and long-term)	1,257,478	1,160,182	911,210	729,975	626,852	656,113	696,119	681,638	613,136	519,227
	2,322,758	2,285,551	1,993,899	1,671,717	1,536,985	1,496,477	1,423,890	1,366,755	1,276,123	1,120,747
Non-current assets	2,923,602	2,782,252	2,285,360	2,027,207	1,874,245	1,808,168	1,743,455	1,696,856	1,587,618	1,438,048
Current assets	717,923	538,701	550,554	332,646	253,272	305,101	301,284	272,341	229,577	225,562
Current liabilities net of borrowings	(411,043)	(320,697)	(307,733)	(238,308)	(189,753)	(216,892)	(230,330)	(214,513)	(157,606)	(139,438)
Provisions	(685,788)	(516,788)	(403,161)	(329,804)	(258,881)	(257,808)	(238,774)	(234,512)	(224,222)	(249,194)
Deferred income	(221,936)	(197,917)	(131,121)	(120,024)	(141,898)	(142,092)	(151,745)	(153,417)	(159,244)	(154,231)
Capital employed	2,322,758	2,285,551	1,993,899	1,671,717	1,536,985	1,496,477	1,423,890	1,366,755	1,276,123	1,120,747
Net cash inflow/(outflow) from operating activities	315,964	298,251	190,692	228,839	211,616	161,640	139,117	123,040	122,856	153,154
Net cash inflow/(outflow) from investing activities	(231,723)	(530,418)	(334,118)	(223,975)	(118,626)	(121,337)	(88,825)	(153,145)	(181,063)	(194,727)
Net cash inflow/(outflow) from finance activities	176,655	149,279	198,440	(51,480)	8,377	(3,976)	56,597	12,551	169,885	3,546
Increase/(decrease) in cash & cash equivalents	260,896	(82,888)	55,014	(46,616)	101,367	36,327	106,889	(17,554)	111,678	(38,027)
<b>Key Indicators</b>										
EPS (basic) (Rs.)	(0.94)	4.60	4.19	3.38	4.44	5.50	2.54	1.77	4.57	7.65
Net assets per share (Rs.)	42.56	44.75	42.91	38.72	38.32	35.38	30.64	28.85	25.65	22.58
Market price per share (Rs.)	25.25	13.00	35.75	25.25	17.00	16.25	*	*	*	*
Price earning ratio (times)	(26.9)	2.8	8.5	7.5	3.8	3.0	*	*	*	*
Current ratio (times)	1.2	0.9	0.9	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Return on equity %	(2.1)	10.5	10.3	8.8	12.0	16.7	8.5	7.0	19.0	40.8
Debt to equity %	124.4	109.2	89.4	79.4	68.9	78.1	95.7	99.5	148.8	148.2
Dividends per share (Rs.)	0.00	1.25	2.50	2.50	1.50	0.75	0.75	0.75	1.00	1.50
Dividend payout ratio (times)	0.00	0.27	0.60	0.74	0.34	0.14	0.30	0.42	0.22	0.20

\* Was not quoted during this period

# INVESTOR INFORMATION

## 1. STOCK EXCHANGE

The Group's and the Company's Audited Income Statements for the year ended 31st December 2009 and the Audited Balance Sheets of the Group and of the Company as at that date, have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

## 2. COMPOSITION OF THE ORDINARY SHAREHOLDERS AS AT 31ST DECEMBER 2009

Number of shareholders as at 31st December 2009 is 14,024 (2008 - 14,012).

No. of Shares held	Residents			Non-Residents			Total		
	No. of Shareholders	No. of Shares held	%	No. of Shareholders	No. of Shares held	%	No. of Shareholders	No. of Shares held	%
1 - 1,000	13,730	2,306,208	9.7103	2	700	0.0029	13,732	2,306,908	9.7132
1,001 - 10,000	246	765,048	3.2213	3	6,000	0.0252	249	771,048	3.2465
10,001 - 100,000	35	903,244	3.8031	1	15,000	0.0632	36	918,244	3.8663
100,001 - 1,000,000	5	819,100	3.4489	-	-	-	5	819,100	3.4489
Over 1,000,000	2	18,934,700	79.7251	-	-	-	2	18,934,700	79.7251
	14,018	23,728,300	99.9087	6	21,700	0.0913	14,024	23,750,000	100.0000

## CATEGORY

Individuals	13,952	3,920,723	16.5083	5	6,700	0.0281	13,957	3,927,423	16.5364
Institutions	66	19,807,577	83.4004	1	15,000	0.0632	67	19,822,577	83.4636
	14,018	23,728,300	99.9087	6	21,700	0.0913	14,024	23,750,000	100.0000

Of the issued ordinary share capital 99.9% is held by residents of Sri Lanka.

## 3. PUBLIC HOLDING

Percentage of shares held by the public is 20.27% (2008 - 20.27%).

## 4. MARKET VALUE

The market value of Talawakelle Tea Estates PLC ordinary shares was -

	2009 Rs.	2008 Rs.	2007 Rs.
Highest	29.25 (21st July 2009)	44.00 (21st April 2008)	38.00 (31st December 2007)
Lowest	13.50 (31st March 2009)	12.00 (18th December 2008)	16.00 (17th May 2007)
Year end	25.25	13.00	35.75

## 5. DIVIDEND PAYMENTS

No dividend has been proposed for 2009.

First and final dividend 2008 - Rs. 1.25 per share was paid on 6th April 2009.

## 6. SHARE TRADING

	2009	2008	2007
No. of transactions	3,019	4,779	2,909
No. of shares traded	2,901,800	5,734,100	3,365,400
Value of shares traded (Rs.)	62,660,600	203,380,800	107,750,175

## 7. 20 MAJOR SHAREHOLDERS

Name of Shareholder	No. of Shares as at 31.12.2009	%	No. of Shares as at 31.12.2008 *	%
Hayleys Plantation Services (Private) Limited	17,750,000	74.736	17,750,000	74.736
Merrill J Fernando & Sons (Private) Limited	1,184,700	4.988	1,184,700	4.988
Mr. S N C W M B C Kandegedara	252,000	1.061	-	-
Waldock Mackenzie Limited/Ceylinco Shriram Capital Management Services Company (Private) Limited	235,000	0.989	235,000	0.989
Mrs. P N Bhatt	126,000	0.530	126,000	0.530
Sri Lanka Insurance Corporation Limited - Life Fund	105,600	0.444	105,600	0.444
Cocoshell Activated Carbon Company Limited	100,500	0.423	97,700	0.411
Employees' Provident Fund	59,100	0.248	-	-
Waldock Mackenzie Limited/Hi-Line Towers (Private) Limited	55,000	0.231	55,000	0.231
Waldock Mackenzie Limited/Hi-Line Trading (Private) Limited	50,000	0.210	50,000	0.210
Mr. G M Weerakoon	47,400	0.199	-	-
Dr. S K Kularatna	45,500	0.191	-	-
Mr. M Radhakrishnan	40,000	0.168	40,000	0.168
Mr. M Asokan	38,700	0.162	-	-
Renuka Holdings Limited	37,100	0.156	37,100	0.156
Mr. Rasaretnam	37,000	0.155	28,000	0.117
Hi-Line Towers (Pvt) Limited	30,400	0.128	-	-
Mr. M S M Mohideen and Mrs. M Mohideen	30,000	0.126	-	-
Mr. D S S Jayantha	28,700	0.120	-	-
Mr. K C Vignarajah	27,100	0.114	-	-
<b>Total</b>	<b>20,279,800</b>	<b>85.379</b>	<b>19,709,100</b>	<b>82.98</b>

\* Comparative shareholdings as at 31st December 2008 of the twenty major shareholders as at 31st December 2009.

# SUBSIDIARIES

## **TTEL Hydro Power Company (Private) Limited** **Principal Activity - Generation of Hydro Power**

<b>Sites</b>	<b>Location</b>	<b>Capacity</b>
Radella Hydro Power Project	Nanu Oya	0.2 MW
Palmerston Hydro Power Project	Talawakelle	0.8 MW

### **Directors**

Mr. A M Pandithage (*Chairman - appointed - 01.07.2009*)

Mr. N G Wickremeratne (*Chairman - retired - 30.06.2009*)

Mr. M M M De Silva

Mr. S T Gunatilleke

Mr. Merrill J Fernando

Mr. Malik J Fernando

Dr. R M Fernando

Mr. J M S Brito

## **TTEL Somerset Hydro Power (Private) Limited** **Principal Activity - Generation of Hydro Power**

<b>Sites</b>	<b>Location</b>	<b>Capacity</b>
Somerset Hydro Power Project	Nanu Oya	1.2 MW

### **Directors**

Mr. A M Pandithage (*Chairman - appointed - 01.07.2009*) (*appointed Director - 01.01.2009*)

Mr. N G Wickremeratne (*Chairman - retired - 30.06.2009*)

Mr. M M M De Silva

Mr. S T Gunatilleke

Mr. Merrill J Fernando

Mr. Malik J Fernando

Dr. R M Fernando

Mr. J M S Brito

# GLOSSARY

## Financial Terms

### Accounting Policies

Specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting Financial Statements.

### Borrowings

Total equity, minority interest and interest bearing borrowings.

### Capital Employed

Total assets less interest-free liabilities and provisions.

### Cash Equivalents

Liquid investments with original maturities of three months or less.

### Contingent Liabilities

Conditions or situations at the Balance Sheet date, the financial effect of which are to be determined by future events which may or may not occur.

### Current Ratio

Current assets divided by current liabilities.

### Debt Equity

Borrowings divided by equity at year end.

### Dividends

Distribution of profits to holders of equity investments in proportion to their holdings.

### Dividend Pay Out

Dividend divided by earnings.

### EBITDA

Earnings Before Interest Tax Depreciation and Amortisation.

### Earnings per Share

Profits attributable to ordinary shareholders divided by the number of ordinary shares in issue.

### Equity

Shareholders' funds, i.e., Share capital and reserves.

### Interest Cover

Profit from operating activities divided by total finance cost paid.

### Market Capitalisation

Number of shares in issue multiplied by the market value of each share at the year end.

### Net Assets per Share

Shareholders' funds divided by the number of ordinary shares.

### Price Earnings Ratio

Market price of a share divided by earnings per share.

### Related Parties

Parties who could control or significantly influence the financial and operating policies of the business.

### Return on Equity

Attributable profits divided by average shareholders' funds.

### Revenue Reserves

Reserves considered as being available for distributions and investments.

### SLAS

Sri Lanka Accounting Standards.

### Segment

Constituent business units grouped in terms of nature and similarity of operations.

### Working Capital

Capital required to finance the day-to-day operations (current assets minus current liabilities).

### UITF

Urgent Issues Task Force of The Institute of Chartered Accountants of Sri Lanka.

## Non-Financial Terms

### COP

Cost of Production. This generally refers to the cost of producing a kilo of produce (Tea/Rubber/Coconut).

### Crop

The total produce harvested over a given period of time (usually during a financial year).

### Extent in Bearing

The extent of land from which crop is being harvested. Also see 'Immature Plantation'.

### Field

A unit extent of land. Estates are divided into fields in order to facilitate management.

### GSA

The Gross Sales Average. This is the average sale price obtained (over a period of time, for a kilo of produce) before any deductions such as Brokerage, etc.

### ISO

International Organisation for Standardisation. A worldwide federation of national standard bodies.

### HACCP

Hazard Analysis Critical Control Point system. A scientific system which identifies, evaluates and control hazards which are significant for food safety.

### Immature Plantation

The extent of plantation that is under development and is not being harvested.

### Infilling

A method of field development whereby planting of individual plants is done in order to increase the yield of a given field, whilst allowing the field to be harvested.

### Mature Plantation

The extent of plantation from which crop is being harvested. Also see 'Extent in Bearing'.

### NSA

The Net Sales Average. This is the average sale price obtained (over a period of time) after deducting Brokerage fees and Cost of Gratis teas (also see 'GSA').

### Replanting

A method of field development where a unit of land is taken out of 'bearing' and developed by way of uprooting the existing tea bushes and replanting with new trees/bushes.

### Seedling Tea

Tea grown from a seed (also see 'VP Tea').

### TASL

Tea Association of Sri Lanka.

### VP Tea

Vegetatively Propagated Tea i.e., tea grown from a cutting of a tea plant (also see 'Seedling').

### Yield

The average crop per unit extent of land over a given period of time (usually kgs per hectare per year).

### 5S

A Japanese management technique on the organisation of the workplace. 5S stands for Seiri (sorting), Seiton (organising), Seiso (cleaning), Seiketsu (standardisation), Shitsuke (sustenance).

### ETP-Ethical Tea Partnership

An initiative in ethical sourcing approved by UK based tea packing companies to work in partnership with producers to demonstrate that ethical conditions exist within the tea industry.

### ISO 22000

International Standard for Food Safety Management Systems (FSMS) released by ISO in September 2005.

### CQC - QMS - Ceylon Tea Quality

#### Certification - Quality Management System

A legal declaration by the Tea Commissioner to a registered Tea Manufacturer in modern Quality Management Systems that the building, equipment and manner of operations of the tea factory are of excellent standard to manufacture made tea of good quality.

### FLO - Fair-Trade Labelling Organisation International

A leading Standard Setting and Certification Organisation for labelling Fair-Trade established in 1997 in Germany.

# NOTICE OF MEETING

Talawakelle Tea Estates PLC  
Company No. PQ 36

NOTICE IS HEREBY GIVEN that the Eighteenth Annual General Meeting of Talawakelle Tea Estates PLC, will be held at No. 400, Deans Road, Colombo 10, on 30th March 2010 at 10.30 a.m. and the business to be brought before the meeting will be:

- (1) To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st December 2009, with the Report of the Auditors thereon.
- (2) To re-elect Mr. A M Pandithage, who has been appointed by the Board, since the last Annual General Meeting, a Director.
- (3) To re-elect Mr. M M M De Silva, who retires by rotation at the Annual General Meeting, a Director.
- (4) To re-elect Mr. J M S Brito, who retires by rotation at the Annual General Meeting, a Director.
- (5) To reappoint Mr. Merrill J Fernando, who retires having attained the age of seventy-nine years and the Company has received Special Notice of the undernoted Ordinary Resolution in compliance with Section 211 of the Companies Act No. 07 of 2007 in relation to his re-appointment.

## Ordinary Resolution

That, Merrill Joseph Fernando a retiring Director, who has attained the age of seventy-nine years be and is hereby reappointed a Director of the Company and it is hereby declared that the age limit of seventy years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not apply to the appointment of the said Director.

- (6) To authorise the Directors to determine contributions to charities.
- (7) To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No. 07 of 2007.
- (8) To consider any other business of which due notice has been given.

## Note

- (i) *A Shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office, No. 400, Deans Road, Colombo 10 by 10.30 a.m. on 28th March 2010.*

By Order of the Board  
**TALAWAKELLE TEA ESTATES PLC**  
Hayleys Group Services (Private) Limited  
Secretaries

Colombo  
11th February 2010





# FORM OF PROXY

I/We\* .....  
of .....  
being a shareholder/shareholders\* of TALAWAKELLE TEA ESTATES PLC hereby appoint,

1. ....  
of .....  
or failing him/them,\*

2. ABEYAKUMAR MOHAN PANDITHAGE (Chairman of the Company) of Colombo, or failing him, one of the Directors of the Company as my/our\* proxy to attend and vote as indicated hereunder for me/us\* and on my/our\* behalf at the Eighteenth Annual General Meeting of the Company to be held on Tuesday, 30th March 2010, and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof:

	For	Against
(i) To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st December 2009, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To re-elect Mr. A M Pandithage, who has been appointed by the Board since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect Mr. M M M De Silva, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect Mr. J M S Brito, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
(v) To reappoint Mr. Merrill J Fernando, who retires having attained the age of seventy-nine years, a Director by passing the Ordinary Resolution set out in the Notice.	<input type="checkbox"/>	<input type="checkbox"/>
(vi) To authorise the Directors to determine contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>
(vii) To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, who are deemed to have been reappointed as Auditors.	<input type="checkbox"/>	<input type="checkbox"/>

(\*\*\*) *The proxy may vote as he thinks fit on any other resolution brought before the Meeting.*

As witness my/our\* hands this ..... day of .....2010.

Witnesses: .....  
.....  
.....

.....  
Signature of Shareholder

Note  
\* Please delete the inappropriate words.  
1. A proxy need not be a member of the Company.  
2. Instructions as to completion appear on the reverse.

**Instructions as to Completion**

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company, No. 400, Deans Road, Colombo 10, by 10.30 a.m. on Sunday, 28th March 2010.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (\*\*\*) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company/Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.

# CORPORATE INFORMATION

## **Name of Company**

Talawakelle Tea Estates PLC

## **Legal Form**

A Public Limited Company  
Incorporated in Sri Lanka on 22nd June 1992

## **Company Number**

PQ 36

## **Accounting Year End**

31st December

## **Principal Line of Business**

Cultivation and Manufacture of Black Tea

## **Stock Exchange Listing**

The ordinary shares of the Company are listed on  
the Colombo Stock Exchange of Sri Lanka

## **Registered Office**

No. 400, Deans Road, Colombo 10, Sri Lanka

## **Head Office**

No. 25, Foster Lane, Colombo 10, Sri Lanka

Telephone: (94-11) 2628601-3, 2697203,  
4621888

Fax: (94-11) 2674592

e-mail: [tpl.tea@ttel.hayleys.com](mailto:tpl.tea@ttel.hayleys.com)

Website: [www.talawakelleteas.com](http://www.talawakelleteas.com)

## **Directors**

Mr. A M Pandithage - *Chairman (Appointed - 01.07.09)*

Mr. N G Wickremeratne - *Chairman (Resigned - 30.06.09)*

Mr. S T Gunatilleke - *Chief Executive Officer*

Mr. Merrill J Fernando (*Alternate - Ms. Minette Perera*)

Mr. Malik J Fernando (*Alternate - Mr. D C Fernando*)

Dr. R M Fernando

Mr. J M S Brito

Mr. M M M De Silva

Dr U Liyanage

Dr. S S S B D G Jayawardena

Mr. L N De S Wijeyeratne

## **Managing Agent**

Hayleys Plantation Services (Private) Limited  
No. 400, Deans Road, Colombo 10, Sri Lanka

## **Senior Management Team**

Mr. S T Gunatilleke - *Chief Executive Officer*

Mr. D S Seneviratne - *Deputy Chief Executive Officer*

Mr. L H Munasinghe - *General Manager - Plantations*

Mr. D M K Perera - *General Manager - Exports*

Mr. T Dharmaratne - *General Manager - Human*

*Resource and Quality Management Development*

Mr. A M H Atapattu - *Manager - Plantations*

Mr. S Edirisinghe - *Group Manager*

Mr. S B Alawattagama - *Group Manager*

Mr. N P Abeysinghe - *Group Manager*

Mr. L N Ratnayake - *Group Manager*

Mrs. A R Wijesekera - *Manager - Finance*

Mr. H H Jayasundera - *Manager - Resource Development*

Mr. R Joseph - *Manager - Marketing*

Mr. T Rodrigo - *Manager - Audit and Co-ordinating*

## **Secretaries**

Hayleys Group Services (Private) Limited

No. 400, Deans Road, Colombo 10, Sri Lanka

## **Bankers**

Commercial Bank of Ceylon PLC

Sampath Bank PLC

National Development Bank PLC

Hatton National Bank PLC

Bank of Ceylon

Hongkong and Shanghai Banking Corporation Limited

Deutsche Bank AG

Indian Bank

Union Bank of Colombo Limited

DFCC Vardhana Bank Limited

## **Auditors**

Messrs Ernst & Young

Chartered Accountants

No. 201, De Saram Place, Colombo 10

Sri Lanka

## **Legal Advisors**

Messrs FJ & G De Saram & Company

Attorneys-at-Law

No. 216, De Saram Place, Colombo 10

Sri Lanka

## **Tax Advisors**

KPMG Ford, Rhodes, Thornton & Co.

Chartered Accountants

No. 32A, Sir Mohamed Macan Markar Mawatha

PO Box 186, Colombo



## VISION

To be the best tea producer in Sri Lanka and to be a first-class tea exporter for Sri Lanka.

## MISSION

Produce and market quality teas that delight our customers.

## FOCUS

Delight our customers, develop our human resources and enhance shareholder value.

## STRATEGY

With the tea industry being cyclical, we seek to add value to our teas, reduce costs and diversify our earnings.

## TEAMWORK

Team Spirit has been and will continue to be the driving force towards achieving performance excellence in every sphere of activity.

## BUSINESS PHILOSOPHY

### *We Believe in*

Manufacturing Quality Tea that fetch Premium Prices  
Increasing Shareholder Value  
The Sprit of Entrepreneurship  
Making Profit without loss of Honour  
Motivating and Training our People to Reach their full Potential  
Rewarding Performance  
Being a "Learning Organisation" and Continuously Improving  
Building Mutually Beneficial long-term relationships  
with our Customers and Suppliers  
Positively contributing to the Conservation of the Environment

### **Talawakelle Tea Estates PLC**

No. 400, Deans Road, Colombo 10, Sri Lanka

Telephone : (94-11)-2628601-3, 2697203, 4621888

Fax : (94-11)-2674592

e-mail : [tpl.tea@ttel.hayleys.lk](mailto:tpl.tea@ttel.hayleys.lk)

Website : [www.talawakelleteas.com](http://www.talawakelleteas.com)